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Beijing Auto to buy some Saab assets

By Norihiko Shirouzu

BEIJING—**Beijing Automotive Industry Holding** Co. has reached a tentative deal to acquire certain assets of **General Motors** Co.'s Saab unit, including intellectual property for two sedans and equipment to produce those cars, according to a person with direct knowledge of the agreement.

The deal, sealed over the weekend in Sweden, will enable Beijing Auto, one of China's main state-owned auto makers, to integrate the Saab technology into its own vehicles. The agreement covers some models of Saab's 9-3 compact sedan series and the current 9-5 midsize car, along with their engines and transmissions, the person said.

Financial terms of the agreement weren't immediately available, but the person said Beijing Auto plans to finance the acquisition in part through loans from Chinese state banks, and noted that the company already has a 20 billion yuan ($2.93 billion) line of credit from Bank of China.

An announcement regarding the deal is expected to be made soon, said the person, who added that Beijing Auto and GM were continuing to negotiate over other possible aspects of cooperation on Sunday.

The deal is part of a broader push by China to create a small number of globally competitive auto makers through domestic consolidation and by acquiring troubled foreign auto makers or their technology. Chinese car makers are gaining strength thanks in part to a home market that has boomed as the rest of the world has sputtered. China's domestic passenger-vehicle sales were up about 50% in the year's first 11 months, and the country is on pace to post total vehicle sales of more than 13 million vehicles this year, surpassing the U.S. as the world's biggest auto market.

Zhejiang Geely Holding Group Co., a privately owned Chinese car maker, was

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Christian leaders warn about the dangers of global warming

Reuters

Archbishop Desmond Tutu of South Africa and church leaders from around the world took part in an ecumenical service dedicated to climate change in Copenhagen on Sunday. The climate summit is shaping up as a pivotal economic showdown between the U.S. and China. **Page 3.**

Open-skies pact impels JAL to act

By Mariko Sanchanta And Mike Esterl

The conclusion of a groundbreaking "open-skies" deal between Washington and Tokyo thrusts **Japan Airlines** Corp. into the spotlight, forcing the dithering carrier to choose urgently between competing $1 billion-plus offers from **Delta Air Lines** Inc. and **AMR** Corp.'s American Airlines.

For months, both Delta and American have been aggressively courting JAL in order to gain access to the embattled carrier's lucrative network of flights to Asia. In recent weeks, these negotiations have morphed into a public battle, with officials from both sides openly lambasting their rival's proposals and flying to Tokyo on a weekly basis to meet with government officials and JAL executives.

The long-awaited open-skies deal means that JAL's rival, **All Nippon Airways** Co., will soon complete its application for antitrust immunity with its partners, **UAL** Corp.'s United Airlines and **Continental Airlines** Co. Applying for immunity, the next step after an open-skies agreement is reached, allows airlines to coordinate flight schedules and pricing as a single entity, giving them a competitive edge. United said this weekend that it plans to file its application with the U.S. Department of Transportation shortly. An open-skies agreement is conditional upon antitrust immunity approval for Japanese

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Bangkok probes North Korean arms flight

By Patrick Barta And Evan Ramstad

BANGKOK—Thai authorities will spend the next several days sifting through a massive cache of explosives, missiles and other weapons seized from a plane from North Korea in a case that could offer new details about the secretive country's involvement in the international illicit-weapons trade.

Thai officials detained the plane and its five crew members late Friday after they landed at Bangkok's Don Muang airport for refueling. Although the final destination of the plane remained unclear, a Thai government spokesman said it was scheduled to land next in Sri Lanka for further refueling and was possibly headed to another location after that.

Associated Press

Thai soldiers surround a plane from North Korea that landed Saturday in Bangkok. Its cargo of explosives and weapons was seized.

The detention of the plane and cargo is among the first executions of new rules created by the United Nations Security Council in June to try to halt Pyongyang's ability to sell and transport arms. The rules were developed after North Korea tested a nuclear explosive in late May in defiance of previous U.N. sanctions.

Since then, international authorities have tracked at least two vessels, including a ship detained in the United Arab Emirates carrying North Korean arms and explosive powder that was headed to nearby Iran. But the size of the latest haul—more than 30 tons—could provide a broader range of information about the variety and quality of weapons North Korea is capable of producing.

Thai government spokesman Panithan Wattanayakorn said Thai authorities had been tracking the plane for several days in conjunction with investigative agencies from "several countries," though he didn't name them. Local media reported that U.S. officials were involved in the mission, but a spokesman for the U.S. Embassy in Bangkok declined to comment.

The Ilyushin 76 transport plane was registered in Georgia but flew to Bangkok from Pyongyang, Thai officials said.

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What's News—

* * *
Business & Finance

■ **Even as signs of deflation** linger, some investors are moving to protect themselves against any surge in inflation. To defend—and profit—from a big rise in inflation, investors have piled into gold or inflation-protected bonds, fearing the Fed will move too slowly to reverse the flood of cash it put into financial markets. **23**

■ **The U.S. House passed** legislation rewriting the rules governing financial markets. The aim is to restrict the operations of big banks and the Fed's powers. **9**

■ **Chinese industry executives** and companies are defending Beijing's new procurement rules aimed at getting state agencies to buy products containing domestic intellectual property. **4**

■ **China said its imports grew** and factory output surged, signs of a rebound that will stir debate over how to unwind the nation's stimulus programs. **4**

■ **Goldman Sachs had** a bigger role than previously disclosed in fueling the mortgage bets that nearly felled insurer AIG. **23**

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■ **The dollar stands to gain** this week as expectations grow that the Fed may raise interest rates sooner than expected. **33**

■ **The Airbus A400M** military transporter finally flew for the first time Friday, but the delayed airplane is still weighted down by contract pricing issues. **25**

■ **Google has designed** a cellphone that it plans to sell directly to consumers as soon as next year. The bold move by the company would require users to buy cellular service separately. **25**

Agence France-Presse/Getty Images

Former Thai Prime Minister Thaksin Shinawatra, left, meets Cambodia's Secretary of State of Council Ministers Prak Sokhon in Phnom Penh on Sunday. Mr. Thaksin met a Thai aviation employee convicted of spying on the toppled Thai leader. Cambodia's King Norodom Sihamoni pardoned Siwarak Chothipong on Friday, three days after he was sentenced to seven years in prison for spying.

* * *
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■ **The climate-change conference** in Copenhagen is shaping up as a pivotal economic showdown between the U.S. and China. **3**

■ **President Arroyo lifted** martial law in a southern Philippine province, but unrest continued in the southern part of the country with a jailbreak. **6**

■ **The five American men** detained last week in eastern Pakistan have been shifted to Lahore for further investigation as police stepped up their hunt for a militant operative believed to be their main contact. **WSJ.com**

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■ **Died: Paul Samuelson**, 94, an American economist whose analytical work laid the foundation for modern economics. **WSJ.com**

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WORLD NEWS

Summit is seen as U.S. versus China

By Jeffrey Ball

COPENHAGEN—The political script for a big climate-change conference in this Danish city has U.S. President Barack Obama and other world leaders flying in later this week to christen a new era of global environmental cooperation. In reality, the summit is shaping up as a pivotal economic showdown between the U.S. and China.

The International Energy Agency projects that nearly all the growth in global greenhouse-gas emissions over the next two decades will come from developing countries—and that fully half of that total will come from China alone. A central point of contention here is whether China, amid all its newfound economic might, still deserves billions of dollars in annual aid from the U.S. and Europe to help it shift to a cleaner pattern of growth.

China says the answer is yes. He Yafei, China's vice foreign minister, said on Friday that rich nations, which built their prosperity on fossil fuels, are like people who go out for a fancy dinner and then, when a poor guest arrives late for dessert, demand that he pay the same bill for his meal as everyone else.

"It's not fair," Mr. He said. "Whoever created this problem, they're responsible," he said. Although he said the European Union had largely lived up to its emission-reduction promises, he singled out the U.S. several times by name as a country that hadn't done its share.

In short, Mr. He is arguing that not much has changed since the late 1990s, when the basis for the current international framework designed to combat global warming—a treaty called the Kyoto Protocol—was negotiated. Kyoto called on industrialized countries to cut their own emissions and help developing countries with subsidies to promote cleaner technologies like energy-efficient cars and solar panels.

But the U.S. argues China no longer deserves special treatment. Though poorer developing countries still need Western help to nurture clean-energy technologies, China is different, Todd Stern, the chief U.S. climate negotiator, told a news conference here last Wednesday. "I don't envision public funds—certainly not from the United States—going to China," he said. "There is no way to solve this problem by giving the major developing countries a pass."

Environmentally speaking, the U.S. and China, which together account for some 40% of global greenhouse-gas emissions, are the nations that matter most in the U.N. climate debate. So far, the Copenhagen summit has served mainly to illuminate their profound disagreements over climate policy. The arguments over the details of climate policy reflect the broader contest between the U.S. and China for economic power in the decades ahead. Many business leaders in the U.S. worry that efforts to dramatically cut fossil-fuel consumption could raise their production costs and put them at a disadvantage to rivals in a China that is becoming more efficient, but not limiting its carbon-fueled growth.

On two consecutive days last month, both the U.S. and China announced specific emission-reduction targets. The U.S. said it would reduce emissions 17% below 2005 levels by 2020, a number broadly in line with climate-change legislation pending on Capitol Hill. China said it would cut its "carbon intensity"—the amount of greenhouse-gas emissions produced per unit of economic output—40% to 45% below 2005 levels by 2020.

But even if China achieved that carbon-intensity cut, the country's total emissions still would surge more than 75% above the 2005 level by 2020, studies project. Michael Levi, a senior fellow specializing in energy and climate change at the Council on Foreign Relations, says studies by the IEA, the U.S. Department of Energy, and the Chinese government all suggest that China was on track to achieve a roughly 45% reduction in carbon intensity even before its recent announcement.

The European Union and Mr. Obama have proposed that the EU and the U.S. will aim to slash their total emissions on the order of 80% by 2050. But Mr. He said it is easy to make such long-term promises. "I doubt the sincerity of developed countries in their commitment," he said.

Mr. He said China's environmental pledge, while perhaps less grandiose, is more real. "I would happily go to debate with any person to see whether what China has committed is less or more than another country," he said. "Facts speak louder than words."

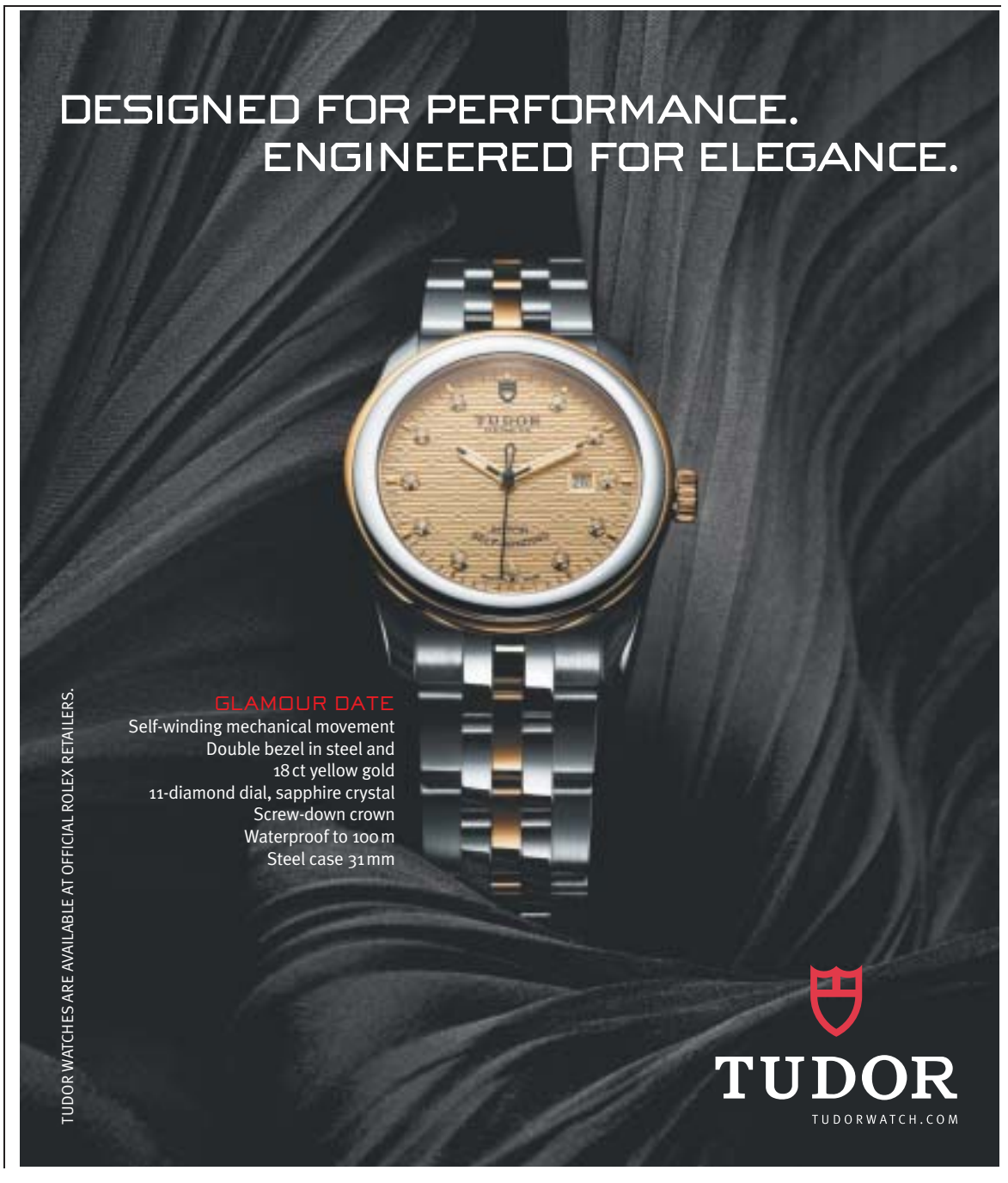
Associated Press

Associated Press

Chinese drummers bearing slogans including 'Save the climate, no time to waste,' beat drums in Beijing Saturday in a Greenpeace event addressing world leaders in Copenhagen. At left, China's He Yafei at a news conference in Copenhagen.

WSJ.com

Online today: Read more of Mr. He's remarks and see how country-by-country CO_2 emissions have changed since 1971, plus a timeline of reduction efforts at **WSJ.com/Climate**.



China firms defend tech-sales rules

Intended beneficiaries of new procurement regulations say they haven't received clarification on how these will work

By Loretta Chao

BEIJING—Chinese industry insiders and companies are defending Beijing's request that state agencies buy products containing domestic intellectual property—but even these intended beneficiaries expressed confusion about how new government procurement regulations would affect them.

China's updated procurement rules, issued on an official Web site in October and reported by The Wall Street Journal last week, establish an accreditation system that gives Chinese intellectual property preferential treatment in sales of tech products to government buyers.

More than 30 industry groups, representing most of the world's major tech companies, wrote a letter Thursday to the Chinese government, calling the system onerous and discriminatory.

The U.S. Department of Commerce and other American agencies have raised the issue with China. The office of the U.S. Trade Representative said Friday that officials at China's Ministry of Commerce and other agencies had been told that the policy could effectively bar foreign companies from a large sector in China, runs counter to international trade principles and would hinder Chinese innovation.

Chinese executives and academics on Friday defended the government's effort to foster "indigenous innovation," saying state backing is needed to erase advantages enjoyed by bigger, more established foreign rivals. As it is, they say, Chinese procurement officials often favor foreign brands because they don't trust the quality of local products.

However, Chinese companies say they haven't received elaboration or clarification from the government on the new regulation. The rule appears too vague and hard to enforce to provide major assistance, according to Fang Yuzhen, marketing executive for **Dawning Information Industry** Co., a Beijing-based maker of high-performance computers and servers. Foreign competitors have about 70% of China's server market, compared with about 6% for Dawning, Mr. Fang says.

"If this new regulation was strictly implemented in a perfect world, then it would definitely benefit us. But in reality, there are still many issues with the process of implementing" it, Mr. Fang said. The definition of indigenous innovation is unclear, he added.

The Chinese ministries that issued the new procurement rules didn't comment late last week. Several of China's biggest technology companies, including **Lenovo Group** Ltd. and **Huawei Technologies** Co., declined to comment about how the regulation would affect them or didn't respond to requests.

Difficulties have long plagued the Chinese government's indigenous-innovation push. The campaign was born out of concerns that the country was beholden to foreign purveyors of expensive technology and needed its own intellectual property to compete as a major global economy.

Those efforts began at least a decade ago. They have been a priority for the administration of current Chinese President Hu Jintao since it took power in 2003.

One of the most notorious outgrowths of the innovation push was a 2003 effort to require PC companies and other gadget-makers to use a wireless Internet technology known as WAPI, in essence a Chinese version of the international Wi-Fi standard. That rule, which required foreign companies to obtain the WAPI technology from designated Chinese partners, prompted a backlash from foreign firms and governments.

Beijing retreated. But China more recently has enforced the WAPI requirement for handsets. **Apple** Inc. subsequently removed the wireless Internet function from the iPhones it sells in China.

The new accreditation system makes products that have Chinese intellectual property and proprietary brands eligible for inclusion in a catalog of preferred providers for government purchases. It covers six categories—computers and application devices, communication products, office equipment, software, new energy products and highly energy-efficient products.

It remains unclear how many government agencies the rule would cover. It is believed to apply to national agencies, but tech-industry analysts and procurement-law experts say it could effectively cover a broader range of purchases.

Some Chinese tech executives say their government isn't doing enough to protect them. "I hope China will do more ... to make the competition more fair," says Fan Hongguang, product manager for **Red Flag Software** Co., a Beijing company that produces a Linux-based operating system which competes with **Microsoft** Corp.'s Windows software.

Linux technology was developed by programmers around the world, raising questions about whether Red Flag's product qualifies as "indigenous innovation." But Mr. Fan says Red Flag has already applied for accreditation for its products under the new rules. "I trust that [Linux's international origins] will not interfere" with the applications, he said.

Government procurement so far isn't included in China's World Trade Organization commitments. "The WTO does forbid discriminating against foreign goods," said Elliot Feldman, head of the international trade practice at Baker Hostetler in Washington. "Except when the government is the buyer."

—Sue Feng, Louise Radnofsky in Washington and Ben Worthen in San Francisco contributed to this article.

Imaginechina/Associated Press

Intelligent robots at a November industry fair in Shanghai. Chinese firms defended rules requiring government agencies to prioritize 'indigenous innovation' in their procurements, but said they could be hard to implement.

Chinese rebound prompts new dilemma

By Terence Poon And Jason Dean

BEIJING—Renewed growth in imports and surging factory output are signaling a stronger recovery in China's economy that is fueling debate about how the government should unwind its stimulus efforts as inflation risks mount.

China's imports in November increased 26.7% from a year earlier to $94.56 billion, reversing October's 6.4% drop and exceeding market expectations.

It was the first rise in 13 months, reflecting strengthening domestic demand, though imports in volume terms have been rising every month since June, driven by strong purchases of commodities such as oil and iron ore.

Industrial production surged 19.2%, the fastest pace in more than two years, on stimulus spending and recovering global demand.

China's economic stimulus over the past year—a mix of government and corporate spending and enormous lending by state banks—has poured money into railways and other infrastructure projects that gobble up steel, for which iron ore is the key ingredient. The stimulus also has kindled demand for housing that has fed a surge in construction.

Oil demand, meanwhile, is being spurred by booming car sales and increased commercial air traffic, as travel picks up amid the improving economy. The International Energy Agency on Friday said it expects world oil demand to grow slightly more than previously expected next year mainly due to accelerating demand from China.

China's exports, meanwhile, continued to decline in November from a year earlier, but the contraction narrowed to 1.2%. Food costs drove consumer prices higher for the first time in 10 months in November.

The upturn in China's trade bodes well for the global economy. Recovering exports indicate improving demand in the U.S. and other countries that buy China's goods, while import growth feeds resource-rich economies such as Australia.

Multinational companies are also benefiting from strong demand within China. The country's passenger-vehicle sales soared nearly 50% in the year's first 11 months, a boon to manufacturers such as **General Motors** Co. and Mercedes-Benz parent **Daimler** AG.

Better exports will help to sustain recent improvements in employment—a top priority for China's ruling Communist Party. The export slump that began nearly a year ago led to widespread factory closings and layoffs in the coastal manufacturing hubs that supply the world's consumers with sweaters, toys and personal computers. Unemployment jumped among the tens of millions of migrant workers from the country's poorer interior provinces, before beginning to recover earlier this year.

The improvement in the Chinese economy's underlying momentum is unlikely to be as dramatic as the headline numbers imply, because they compare with November 2008 when the spread of the financial crisis had just started to send global trade into free fall.

But the figures are likely to enliven the debate about how much further Beijing should go in unwinding the stimulus policies that have pumped huge amounts of credit into the economy and stirred concerns about asset bubbles and inflation.

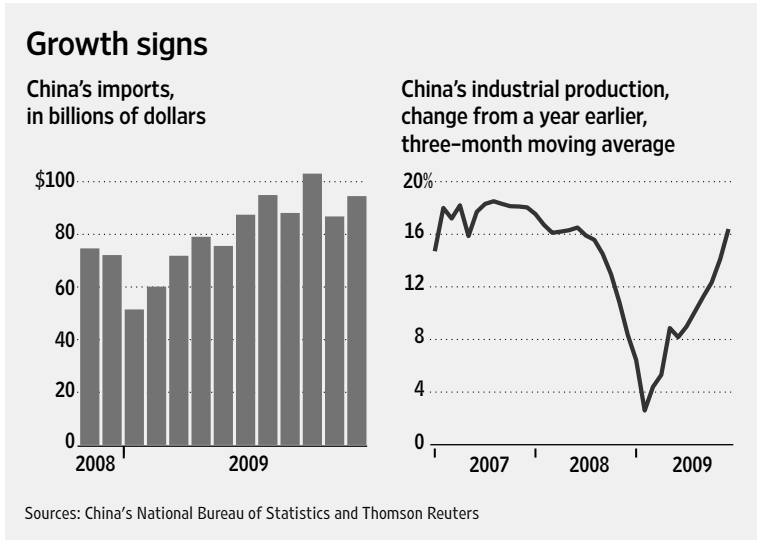
"When gross-domestic-product growth quickens, inflation picks up, and asset and property prices increase, calls for the need to tighten policy may surface," said Lian Ping, chief economist at Bank of Communications.

Already, the government has signaled some concerns. Surging home sales have sent prices soaring in some cities, raising fears of bubbles.

Bank lending—a key way the government has supported its stimulus program—slowed from its rapid growth in the first half of this year, but remains brisk. Financial institutions in China extended 294.8 billion yuan ($43.12 billion) of new yuan-denominated loans in November, up from 253 billion yuan in October, central-bank data issued Friday showed.

—Andrew Batson and Liu Li contributed to this article.

■ Heard on the Street.....38



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Japan coalition sees strains

Prime Minister Hatoyama is challenged by party leaders on key foreign and domestic issues

By Alison Tudor

TOKYO—Japan's new coalition government is showing strains, as boisterous junior partners sway key policies, from deficit spending to U.S.-Japan relations.

The struggles by Prime Minister Yukio Hatoyama to control his cabinet have started to chip away at his high approval ratings.

Mr. Hatoyama's Democratic Party of Japan won an overwhelming majority in August parliamentary elections, but that gave him control only of the parliament's lower house. The DPJ, in trying to win smooth passage of legislation through the upper house, has been held ransom by two smaller parties, led by a socialist and a feminist.

It's an awkward dynamic. The DPJ is simultaneously focused on winning sole control of the upper house in elections scheduled for this summer and having to govern in partnership with the parties it is seeking to oust from power.

The major domestic-policy initiatives, such as blocking privatization of the postal service, a bank-loan moratorium and the size of an $80 billion stimulus package, have been driven by the rambunctious Shizuka Kamei, head of the People's New Party.

The biggest foreign-policy problem has been driven by the other coalition partner, the Social Democratic Party. Mizuho Fukushima, consumer-affairs minister and head of the SDP, threatened Thursday to leave the coalition if the DPJ continues a plan negotiated by the previous government on the location of U.S. bases in Japan.

Mr. Hatoyama's refusal to accept the American plan has sparked unusually harsh rhetoric between the two close allies.

"This is becoming a typically Japanese situation. Japanese politicians change policies easily to maintain coalitions and personal relationships," said Deutsche Bank senior economist Seiji Adachi.

Mr. Hatoyama called for an emergency meeting Friday with Mr. Kamei and Ms. Fukushima to try to iron out their differences. A spokesman said the three leaders agreed to work together on resolving the issues of the U.S. military base.

Agence France-Presse/Getty Images

Shizuka Kamei, head of the People's New Party, speaks at a news conference in Tokyo Friday of the need for a government consensus on the military-base issue.

A newspaper poll last week showed the cabinet's approval rating slipped somewhat to 59% from 63% last month. The biggest complain from respondents was that Mr. Hatoyama hadn't shown leadership.

U.S. government officials have expressed growing frustration with Mr. Hatoyama's handling of American troops based in Japan.

The U.S. is keen to finalize a deal over relocation of U.S. troops on the southern Japanese island of Okinawa. However, Mr. Kamei warned at a news conference Friday the need to reach a consensus within the government would delay a decision until at least the new year.

He said U.S. leaders should understand Mr. Hatoyama's grip on power is "precarious," adding: "so long as the CIA does not assassinate me, things will not go back to the way things were before, when Japan simply followed America's lead."

The 73-year-old Mr. Kamei has spearheaded the two most controversial pieces of legislation written by the new government: a bill calling for banks to reschedule loans to small companies and a bill halting the privatization of Japan's mammoth postal services.

Tensions within the government are rising. Deputy Prime Minister Naoto Kan called Mr. Kamei to reprimand him for missing a cabinet meeting on Dec. 4, which resulted in an angry conversation, according to a person familiar with the matter. Mr. Kamei hung up on Mr. Kan and refused to pick up his next call.

Mr. Kan's frustration boiled over into an outburst at during a cabinet meeting on Tuesday, according to Japanese media: "We ensured that a bill to freeze the sale of shares in postal companies be passed into law for the sake of the PNP."

Mr. Kamei sees himself as more of a help than hindrance. He is known as "the Turtle" in Japan because of the Chinese hieroglyphic for turtle in his surname. He uses the image to describe his relationship with the prime minister.

"I am the turtle, giving my body and soul to protect Mr. Hatoyama sitting on my back," Mr. Kamei said in an interview.

He also has the confidence of the influential secretary-general, Ichiro Ozawa, because of his experience. Mr. Kamei is one of the more seasoned politicians in the new cabinet. He was named minister of transport in 1994 and minister of construction in 1996.

"Mr. Ozawa trusts him and doesn't trust other DPJ members," said Deutsche Bank's Mr. Adachi.

Mr. Kamei will continue to make his presence felt, at least until next year's upper-house elections. A big supporter of fiscal spending, Mr. Kamei said on Friday that Japan's economy will worsen if the budget for the next fiscal year is below 95 trillion yen ($1.077 trillion).

He advocated big-infrastructure projects such as bridges, burying electrical lines and sewage works, despite Japan's public-debt ratio already being the highest in the industrialized world at around 180%.

Concerns the Japanese government will breach its own bond issuance target of 44 trillion yen in the next fiscal year prompted yields to climb last week.

"The government should take a leading role in stimulating demand," Mr. Kamei said.

Philippines lifts martial law

By Patrick Barta

Philippine President Gloria Macapagal Arroyo lifted martial law in a province where 57 people were massacred last month, but unrest in the southern Philippines continued.

On Sunday morning, a group of armed men stormed a jail on the southern island of Basilan, smashing through a wall to free at least 31 inmates, authorities said. One attacker and a guard were killed. Some of the escapees were believed to be members of the Moro Islamic Liberation Front and Abu Sayyaf, Muslim rebel groups linked to past violence in the region, police said.

The brazen jailbreak underscored the lawlessness in a region tormented by bandits, private armies and insurgents, including Communists and al Qaeda-linked Muslim separatists.

There was some good news Sunday: Officials said gunmen released 47 hostages who had been held in a jungle hideout elsewhere in the south. A group of around 15 abducted the hostages from a village on Thursday, but freed them after government negotiators agreed not to arrest the gunmen for the abductions or for past criminal activities, the Associated Press reported.

The decision to lift martial law late Saturday in another zone of the southern Philippines also suggested tensions there may be easing. But the area's problems are far from resolved, and analysts warn there could be further outbreaks of violence in the months ahead.

Mrs. Arroyo declared martial law in Maguindanao province earlier this month to enable the military to disarm suspected militia members after an apparent feud between rival political clans erupted into a massacre on Nov. 23. The move allowed police and soldiers to make arrests without warrants.

Opposition politicians criticized the decision to impose martial law, which they feared could lead to widespread civil-rights violations and hand too much power to Mrs. Arroyo's government ahead of national and local elections next May.

On Sunday, government officials said they felt they had made enough progress to relax their grip after executing several missions in Maguindanao in recent days. Soldiers raided properties controlled by members of the Ampatuan clan, which is accused of leading the Nov. 23 massacre that killed 30 journalists and others linked to the rival Mangudadatu family. The government also uncovered large supplies of arms, including assault weapons and armored personnel carriers.

In the past several weeks, authorities have replaced the province's entire 1,000-person police force, and have arrested as many as 600 suspected militants, including some the government said may have been plotting a rebellion.

Prosecutors have filed multiple murder charges against Andal Ampatuan Jr., a local mayor, for allegedly leading the massacre. His father, former Gov. Andal Ampatuan Sr., and other clan members have also been arrested and charged with rebellion. The family maintains their innocence.

"We set specific objectives and we felt we had accomplished those objectives," said Cerge Remonde, a spokesman for Mrs. Arroyo, of lifting martial law. He said a state of emergency, which allows security forces to set up road checkpoints and seize weapons from civilians, would remain in place in the zone.

The region remains restive. Officials have been targeting as many as 2,400 armed Ampatuan loyalists, many of whom may still be at large. Analysts have said it could take months, if not years, to pacify a region where the government has long supplied weapons to family-based militias to help them hem in Communist and Muslim insurgencies.

More groups in India seek their own state

By Vibhuti Agarwal

NEW DELHI—Some groups are renewing their push for separate states in India after New Delhi met one protest campaign's wish by deciding to allow a new state to be carved from Andhra Pradesh.

The Indian government's move to support a new Telangana state came last Wednesday after a senior separatist leader staged a hunger strike for more than a week and his supporters agitated across Andhra Pradesh and in its capital, Hyderabad.

Among the groups now demanding their own state is Gorkha Janmukti Morcha, a political party that said about 20 members will go on indefinite hunger strike in an effort to persuade the government to form a separate state of Gorkhaland out of the eastern state of West Bengal. In Harit Pradesh, part of the northern Indian state of Uttar Pradesh, separatist supporters are threatening to resume their agitation. So have statehood supporters in the Vidarbha region of the western state of Maharashtra.

In West Bengal, the president of the Gorkha party has been urging members to participate in a four-day business shutdown starting on Monday.

In West Bengal, the president of the Gorkha party, Pradeep Pradhan, said the party was urging Gorkhas to participate in a four-day business shutdown in the region starting Monday. Gorkhas are an ethnic group that spans parts of Nepal and northeastern India. Mr. Pradhan says the separate state would recognize the Indian and Nepali Gorkhas who have been otherwise neglected.

So far, the Indian government has been trying to resolve the Gorkhas' demands through talks between the central and state governments and members of Gorkha Janmukti Morcha party. Mr. Pradhan said the party has a meeting scheduled with Home Secretary G.K. Pillai Dec. 21 to discuss the issue. A Home Ministry official declined to comment.

In another separatist region in India's desert state of Rajasthan, a rally of camel-mounted activists took to the streets demanding statehood for the Maru Pradesh region. Maru Pradesh is spread over nine of Rajasthan's 32 districts. The demand is based on an "imbalance in favor of the rest of Rajasthan," said Rajpal Godara, one of the supporters of the movement.

Meanwhile, the path to Telangana statehood remains unclear, as more local legislators in the Andhra Pradesh assembly resigned to protest the prospect of a divided state. So far, 127 of Andhra Pradesh's 295 legislators have quit. The speaker of the local assembly has said the resignations won't be accepted; the assembly has been adjourned until Monday. It was unclear when a resolution for Telangana statehood would be introduced in the assembly.

Prime Minister Manmohan Singh said no action would be taken "in haste."

WORLD NEWS

Iran's nuclear offer doesn't stir West

Officials say foreign minister's willingness to trade small amounts of uranium on home soil falls short of demands

By Chip Cummins

MANAMA, Bahrain—The Iranian foreign minister's weekend comments that Tehran would be willing to make a uranium trade in small batches, and on Iranian soil, fell well short of demands by Western officials, who have ratcheted up pressure on Iran to make clear its position.

U.S., French, Russian and International Atomic Energy Agency negotiators hammered out a proposed deal with Iranian counterparts earlier this year. That deal called for Iran to ship out the bulk of its low-enriched uranium, to be further enriched outside the country and then shipped back to Iran for use in a medical-research reactor.

Senior Iranian officials, however, refused to endorse the proposal. Instead, they have offered a series of sometimes-contradictory counteroffers and demands for major changes in public comments.

Western officials have said they won't consider a major reworking of the deal, insisting on a clear yes or no from Iran over the IAEA-brokered proposal.

U.S. officials have signaled they are willing to wait until the end of the year before pushing for tough, new economic sanctions.

Manouchehr Mottaki, Iran's foreign minister, speaking at a high-profile security conference here on Saturday, appeared at least to clarify Iran's current position: He said Tehran has offered to exchange the previously agreed amount of fuel—1,200 kilograms of uranium—but in three batches of 400 kilograms each. The fuel, he said, would be exchanged for the equivalent of higher-enriched uranium on Kish Island, an Iranian island in the Persian Gulf that serves as a sort of free-trade zone.

"We will bring 400 [kilograms] to Kish, and you bring the equivalent" in higher-enriched uranium for exchange, Mr. Mottaki said during a question-and-answer session at the conference, attended by senior Western officials, including top U.S. diplomats and American military officials.

An IAEA spokesman declined to comment on the Iranian foreign minister's statement. A diplomat familiar with the negotiations with Iran said Iran has never formally shut the door on a deal. The Kish Island proposal isn't new, the diplomat said.

"Iran's proposal...does not appear to be consistent with the fair and balanced draft agreement proposed by the IAEA in consultation with the United States, Russia, and France," the Associated Press reported a senior Obama administration official as saying.

On Friday, the European Council of the European Union adopted a declaration expressing "grave concern that Iran has so far done nothing to rebuild confidence of the international community in the exclusively peaceful nature of its nuclear program."

The declaration said the EU would "support action by the United Nations Security Council" if Iran doesn't begin to cooperate with the international community over its nuclear program. An EU spokesman declined to comment about the declaration on Sunday.

A spokeswoman for the German foreign ministry said Germany "expects Iran to seek cooperation" to resolve open issues surrounding its nuclear program.

Mr. Mottaki said Iran had agreed in principle to the original fuel-swap proposal, but was wary of being duped by the West in any exchange. He said Iran had long been the victim of the West backing out of nuclear deals.

"Once bitten, twice shy," he told conference delegates, through a translator. "And we have been bitten too many times." He added: "We want to make sure you're not playing games with us."

Iranian officials had suggested a similar amendment to the deal in recent weeks, though no official had spelled it out so clearly in public.

—David Crawford in Berlin contributed to this article.

Associated Press

Iranian Foreign Minister Manouchehr Mottaki, speaking at the International Institute for Strategic Studies regional security conference in Manama, Bahrain, on Saturday, said his country had long been the victim of the West backing out of nuclear deals.

World oil demand to rise on more activity in China

By Spencer Swartz

LONDON—World oil demand will rise slightly more than expected next year, the International Energy Agency said, mainly due to accelerating economic activity in China.

The Paris-based agency's forecast coincided with a raft of Chinese economic data released Friday—including a report showing industrial activity rising by 19% in November—that helped to explain the IEA's rosier outlook on the Asian giant and on world crude consumption.

Oil prices in New York initially rose on those events but later traded down almost 60 cents at $69.99 a barrel, a two-month low, as traders sold off positions and put their money into a strengthening U.S. dollar.

The IEA said it expects consumers globally next year to burn on average 86.3 million barrels a day, representing an upward revision of 130,000 barrels a day from the group's November report and growth of 1.5 million barrels a day from 2008.

In its new forecast, the IEA is more optimistic than its peers. The U.S. Energy Information Administration cut its 2010 global oil demand outlook. The Organization of Petroleum Exporting Countries predicts consumption will grow by half of the level the IEA is projecting.

Some analysts question how robust an oil demand recovery next year can be, as consumers in industrialized nations, particularly in the U.S., rebuild personal wealth by saving more and banks keep a tight leash on lending.

U.S. crude demand may rise by a tiny 0.7% in 2010 after falling an expected 4% this year, according to IEA estimates.

The IEA revised up its Chinese oil demand forecast by almost 100,000 barrels a day with the country now expected to consume on average 8.7 million barrels a day next year, or 3.6% above 2009. But not even China's huge oil thirst can drain the large buildup of unused oil in the world.

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WORLD NEWS

Alleged Iranian assets are frozen

By Jay Solomon

WASHINGTON—More than $2 billion allegedly held on behalf of Iran in **Citigroup** Inc. accounts were secretly ordered frozen last year by a federal court in Manhattan, in what appears to be the biggest seizure of Iranian assets abroad since the 1979 Islamic revolution.

The legal order, executed 18 months ago by the U.S. District Court for the Southern District of New York, is under seal and hasn't been made public. The court acted in part because of information provided by the U.S. Treasury Department.

President Barack Obama has pledged to enact new economic sanctions on Iran at year-end if Tehran doesn't respond to international calls for negotiations over its nuclear-fuel program.

The frozen $2 billion stands at the center of an intensifying legal struggle between Luxembourg's **Clearstream Banking** S.A., the holder of the Citibank account, and the families of hundreds of U.S. Marines killed or injured in a 1983 terrorist attack on a Marine barracks in Beirut, Lebanon.

Clearstream is primarily a clearing house for financial trades and is a wholly owned subsidiary of Germany's **Deutsche Boerse** AG. Luxembourg's bank secrecy laws have helped it grow into a major European financial center.

There is no indication that Citibank knew the funds may ultimately belong to Iran. U.S. firms that do business with Iran face stiff civil and criminal penalties.

A federal judge in Washington ruled in 2003 that Iran orchestrated the bombing of the Marine barracks and later ordered Tehran to pay the victims' families $2.7 billion in compensation.

Lawyers for the families, backed by information provided by the U.S. Treasury, are arguing that Clearstream is holding Iranian funds at Citibank and are seeking to seize the assets as payment for their clients.

"I was stunned when this money popped up in New York," said Steven Perles, a lawyer representing the victims' families. "I had no idea there was Iranian money of this size flowing through the United States."

Citibank, Clearstream and the Iranian government all declined to comment on the case, and Tehran hasn't made any filings in the matter. The outlines of the dispute, however, appear in judicial filings and in the federal court's docket sheets.

Those documents show that Clearstream has denied it is holding funds for the Iranian government and that the European firm has been fighting to release the $2 billion.

The court initially ordered Citibank in June 2008 to freeze $2.25 billion of Clearstream's accounts, but the company's lawyers were able to get $250 million released the following month, according to court records. Clearstream is represented in the U.S. by White & Case LLP, which declined to comment.

The legal battle over the funds could lead to a trial. A victory for the plaintiffs would mark the largest seizure of Iranian funds since Islamist parties seized power in Tehran from the U.S.-backed Shah in 1979.

That year, the U.S. government froze around $12 billion of Iranian assets in retaliation for the kidnapping of American diplomats and military personnel. While a portion of the funds was returned after the hostages' release, a United Nations body in the Netherlands continues to try and arbitrate the return of the remaining assets, which include bank deposits, gold and real estate.

The legal case concerning Citibank in New York comes as the U.S. government is intensifying efforts to use the global financial system to pressure Iran into giving up its nuclear program and support for international terrorism.

U.S. officials said that the Obama administration has also finished tailoring a new round of economic sanctions on Iran that could be enacted early next year. The new penalties seek to hobble Tehran's oil and gas industry by blacklisting Iranian energy, insurance and shipping firms.

The U.S. strategy also seeks to target the economic assets of Iran's elite military unit, the Revolutionary Guards Corps, which is believed to oversee the country's nuclear program. U.S. officials said international deliberations over new Iran sanctions could begin at the United Nations Security Council within the next month.

There is no indication that Citibank knew the funds may ultimately belong to Iran.

"Inside the U.S. government, the plan is now done," said a senior U.S. official briefed on the deliberations. "We've put together a plan that's comprehensive and goes after a number of Iran's vulnerabilities."

U.S. Defense Secretary Robert Gates joined with European leaders Friday to warn that Iran risks sanctions soon if it fails to cooperate with the West on its expanding nuclear program.

"I think that you are going to see some significant additional sanctions imposed by the international community," Mr. Gates said. He cautioned that "any military action would only buy some time, maybe two or three years."

Lawyers for the victims of the Beirut bombing said they started looking for Iranian assets to seize after winning the $2.7 billion judgment in 2007. A federal judge in Washington D.C. ruled that Iran's intelligence service, the Ministry of Information and Security, directly oversaw the bombing of the Marine Corps barracks in coordination with the Lebanese militant group, Hezbollah. Before the Sept. 11, 2001, attacks, it was the largest terrorist attack ever inflicted on U.S. citizens; 241 servicemen died.

In June 2008, the Treasury's Office of Foreign Assets Control filed a motion in Washington D.C. federal court, seeking authorization to disclose to the plaintiffs in the terrorism cases information concerning assets being held inside the U.S. in which Iran might have an interest.

The Treasury also said in its court filing that its motion needed to be expedited due to "the risk of immediate asset flight." Two days later, the New York court ordered Citibank to freeze $2.25 billion of Clearstream's accounts.

WORLD NEWS: U.S.

House move takes aim at Wall Street

Bill would usher in the biggest changes in financial regulation since the 1930s; it puts significant curbs on the Fed

By Damian Paletta And Robin Sidel

WASHINGTON—The House of Representatives, in a display of anti-Wall Street sentiment, passed sweeping legislation that rewrites the rules governing financial markets, aiming to restrict the operations of big banks and the powers of the Federal Reserve.

The legislation, if enacted, would bring the biggest change to financial rules since the 1930s, changing business practices for everyone from mortgage brokers in California to traders on Wall Street. Friday's vote advances a major White House initiative designed to tackle the perceived causes of last year's financial crisis.

The House bill would give the government the power to break up even healthy companies if regulators believe they pose a threat to the financial system.

The House's action isn't the final word. The Senate has yet to act, and an early version of its bill is different from the House version in many respects. But senators hope to have an agreement in principle by the end of December and to pass a bill in the first half of 2010.

Under the House version, large financial companies including Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. would be hit with billions of dollars in fees and would see new restrictions on their operations.

The bill would strip nearly all of the Federal Reserve's powers to write consumer-protection laws and would allow—for the first time—an arm of Congress to audit the Fed's monetary policy decisions, supposedly a politics-free zone. The Fed has fiercely resisted the idea.

For consumers and individual investors, the bill gives shareholders an advisory vote on executive compensation and creates a new Consumer Financial Protection Agency.

The new federal agency would write rules and examine banks for compliance with consumer protection policies on mortgages, credit cards and other products.

The bill, written in large part by House Financial Services Committee Chairman Barney Frank, aims to fill gaps in the regulatory toolkit exposed by last year's crisis. It would give the government the power to break up even healthy financial companies if regulators believe they pose a threat to the financial system. It will also direct the Federal Deposit Insurance Corp. to collect $150 billion in fees from big financial institutions to create a fund to pay for future large failures.

New drill

Some consumer elements of the House financial-regulation bill:

- ✓ Creates consumer-protection agency to oversee products from credit cards to mortgages.
- ✓ Gives shareholders advisory vote on executive pay.
- ✓ Uses $3 billion of TARP funds to reduce risk of foreclosures among unemployed.
- ✓ Creates whistleblower bounty program for those who uncover securities fraud.

Business and banking groups lobbied hard to kill the bill, particularly the consumer agency, which critics charge would have the effect of restricting credit to consumers.

"Certain provisions in the legislation will undermine our shared goal of market stability and reducing systemic risk," said Timothy Ryan, president and chief executive of the Securities Industry and Financial Markets Association, in a written statement. "We believe there can be additional improvements in the Senate," said a spokesman for Bank of America Corp.

"A new agency is just a whole new bureaucracy," J.P. Morgan Chase & Co. Chief Executive James Dimon said Tuesday at an industry conference.

The final vote was 223-202, with 27 Democrats joining unanimous Republican opposition.

Attention now shifts to the Senate, where lawmakers fought bitterly several weeks ago about what future financial rules should look like.

A big issue is what to do with the proposed consumer body CFPA. Liberals view it as central to any regulation. House lawmakers have already agreed to exempt smaller banks from its examiners. Senate Republicans don't want the agency created in the first place.

One Senate deal under consideration would allow the new agency to be created, but wouldn't let it examine or enforce new rules against banks in most cases.

Senate Banking Committee Chairman Christopher Dodd has proposed creating a single federal bank regulator, stripping supervisory powers from the Fed and FDIC. His goal was to more closely focus each agency on their core responsibilities and eliminate the turf-fighting between different regulators.

Three days of debate on the House bill highlighted deep philosophical differences between Democrats and Republicans about the role of regulation in capitalism. Democrats argued that more government involvement was necessary to prevent a future financial collapse and to protect consumers.

"We are sending a clear message to Wall Street," said Speaker of the House Nancy Pelosi (D., Calif.). "The party is over. Never again."

Republicans countered that the Democrats' plan would create huge government bureaucracies, stifling access to credit. "Their bill will continue the destruction of jobs in this country," said Rep. Scott Garrett (R., N.J.).

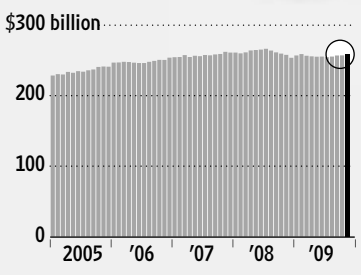
House lawmakers made multiple changes to an original White House proposal, often injecting a more populist bent to penalize large financial companies while also exempting smaller firms from certain bank examinations.

Democratic leadership narrowly defeated an amendment by Rep. Walt Minnick (D., Idaho) that would have quashed the creation of the CFPA. Democrats said the bill would end taxpayer bailouts of failing financial companies, while Republicans said the bill would actually institutionalize bailouts in the future.

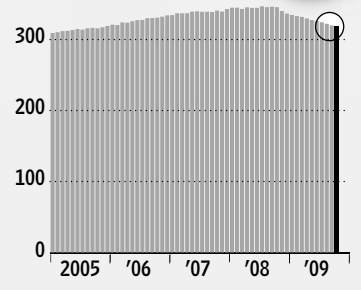
In one victory for banks, Republicans and more than 70 Democrats defeated an amendment that would have allowed bankruptcy judges to rework the terms of mortgages.

Just in time for the holidays

U.S. retail sales excluding autos and parts dealers and gasoline, November: $258.8 billion, up 0.4%, first gain in 13 months



Retail inventories excluding auto parts and dealers, October: $319.2 billion, lowest since '05



Sources: U.S. Commerce Department; Thomson Reuters

For retailers, November produces better tidings

By Elizabeth Holmes And Justin Lahart

The U.S. consumer is back for the holidays.

Retailers saw sales rise in November, a turnaround from the battering they took last Christmas and much of this year. The Commerce Department said Friday that sales rose a seasonally adjusted 1.3% last month from October.

That growth confirms stores' strategy of timing sales throughout November, instead of waiting till the day after Thanksgiving. Kmart and Sears, both owned by **Sears Holdings** Corp., offered "Better than Black Friday" and "Black Friday Now!" promotions, respectively. **Wal-Mart Stores** Inc. slashed $10 off orders of bestseller books and DVDs on its Web site. **Amazon.com** Inc. and **Target** Corp. matched its rock-bottom prices.

"People have made the adjustment of cutting back on consumption and increasing their saving," said economist Michael Carey with Calyon Securities in New York. "Maybe now they're saying, 'OK, I can be a little less cautious.' "

The retail numbers and a separate report showing that U.S. businesses raised inventories for the first time since 2008 prompted raised economic forecasts. J.P. Morgan said it expects U.S. gross domestic product to grow 4.5% in the current quarter rather than 3.5%.

Also, the University of Michigan/Reuters consumer-sentiment index for December moved to 73.4 from 67.4 in November.

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Hanging back on bonus tax

France to cooperate with U.K. plan, but Germany and U.S. appear reluctant to sign on

The British special tax on banker bonuses unveiled last week received crucial backing from France, but other important countries have so far declined to follow the U.K.'s bid to curtail banker compensation.

By Sara Schaefer Muñoz in London, David Gauthier-Villars in Paris and Martin Vaughan in Washington

European Pressphoto Agency

While France's Nicolas Sarkozy backed the U.K. bonus plan, Germany's Angela Merkel remained noncommittal.

Reaction to the U.K.'s move underscored how difficult it is to coordinate reform efforts globally. While France said it would likely enact something similar, Germany expressed support for the concept but had no immediate plans to do anything similar. On the other side of the Atlantic, the U.S. showed no signs of following suit.

German Chancellor Angela Merkel called the special tax "charming"—but more for London than Frankfurt. "The step might assist learning in the City of London."

France, which was among the first countries to call for international rules aimed at capping bonuses, said Thursday that the U.K. move made it easier to consider a French tax. But French officials had made clear they wouldn't act single-handedly for fear of prompting a trader exodus.

"With Europe's largest financial center planning a bonus tax, we can shift from competition to cooperation on this matter," said a spokesman for French President Nicolas Sarkozy.

Compensation has emerged as a key issue in the debate about financial-sector reform. The Financial Stability Board, created by the Group of 20 nations in order to coordinate regulatory reform, has issued pay guidelines and says it will work aggressively to see that they are followed starting in 2010.

These rules, however, focus primarily on responsibly rewarding risk and paying careful attention to how compensation affects capital levels. There is scant attention paid to the size or timing of bonus payments, which is the target of the U.K. special tax.

In the U.S., there is little indication that politicians will follow the U.K.'s lead. Congress considered a special tax on bonuses earlier this year amid a pay flap at government-controlled insurer **American International Group** Inc. But Congress dropped the idea after the furor about pay quieted down.

Instead of imposing special taxes, the U.S. administration has curbed pay and bonuses for executives at the firms receiving the most taxpayer funding, such as AIG and **Citigroup** Inc. Further action is likely to come from regulators, not lawmakers, led by the Federal Reserve.

Despite the cool reception to the bonus tax from the U.S. and Germany, U.K. Treasury officials assured British banks that they are trying to get other governments to adopt similar measures to ensure a level playing field when it comes to hiring, a person close to the matter said.

In the U.K., Treasury officials slapped on the tax after banks found creative ways to skirt initial bonus restrictions. It is a 50% tax that banks must pay on any portion of a discretionary bonus above £25,000, or around $40,000, through April 5, 2010. Bonuses that are guaranteed by contract are exempt. Those are usually a small portion of a bank's bonuses, compensation experts say.

The move comes as Britain's Labour Party faces an election next year and is aiming to tap into public anger over what is seen as bankers' culture of excessive pay.

The move affects this year's compensation structure at banks such as **Royal Bank of Scotland Group** PLC, which is 70%-owned by the U.K. government after a multibillion-pound bailout. The troubled bank was the first to implement significant overhaul of its pay policies, curtailing most cash bonuses and deferring large portions of awards. But as a bone to employees, the bank offered loans against deferred awards, according to people close to the matter. This will now be subject to tax under the new U.K. rule.

—David Crawford in Berlin contributed to this article.

U.S. Treasury restricts pay at four firms

By Deborah Solomon And Jessica Holzer

The U.S. pay czar mandated restrictions on compensation at four firms receiving large sums of government aid, a move designed to more closely tie employee pay to company performance.

Kenneth Feinberg's determinations, which affect roughly 300 highly compensated employees at four firms receiving Troubled Asset Relief Program funds, don't dictate exactly how much each employee can earn but instead set guidelines governing the mix of cash and stock and incentive compensation.

Under the ruling, at least 50% of an employee's compensation must be held for three years either in the form of long-term stock or some other long-term compensation. Regular salaries for 2009 can't exceed $500,000 in most cases and total cash compensation, which can include cash bonuses or other cash awards, must be limited to 45% of total pay.

The new rules apply to the 26 to 100 most highly compensated employees at American International Group Inc., Citigroup Inc., General Motors Co. and GMAC. While the policy only affects 2009 compensation that hasn't already been paid, the guidelines are expected to form the basis of similar restrictions for 2010.

Mr. Feinberg also required that the firms limit the total amount of money available for bonuses. The companies will be required to establish a "pool" based on a percentage of certain earnings or "other metrics" that have yet to be determined, the Treasury Department said.

Mr. Feinberg said the guidelines are "designed to send a message not only to these companies, but, we hope, to the greater corporate community."

—David Enrich and Joann Lublin contributed to this article.

The Power List

The top business leaders making headlines last week in select global and regional media. Powered by Dow Jones Factiva and edited for relevance and clarity.

OSAMU SUZUKI

CHAIRMAN AND CHIEF EXECUTIVE, SUZUKI MOTOR

The 79-year-old executive said a $2.5 billion investment from Volkswagen AG would allow Suzuki to share components and jointly develop cars for emerging markets while maintaining its independence.

ANIL AMBANI

CHAIRMAN, RELIANCE NATURAL RESOURCES

Reliance Natural Resources Ltd. accused Reliance Industries Ltd. of trying to inflate profits through higher natural gas prices, as a court dispute between Mr. Ambani and his brother, Mukesh, continues.

VIJAY MALLYA

CHAIRMAN, UNITED BREWERIES

Mr. Mallya's brewer reached an agreement with Heineken NV that will allow the Dutch company to sell its flagship beer in India.

STEVE ZHANG

CHAIRMAN AND CHIEF EXECUTIVE, ASIAINFO

AsiaInfo agreed to acquire Linkage Technologies International Holdings Ltd. in a $733 million deal intended to create a Chinese telecommunications software company that can provide more services to China's telecom giants.

OLEG DERIPASKA

CHIEF EXECUTIVE, UC RUSAL

Hong Kong officials pushed back the initial public offering there of the Russian aluminum giant until next year amid concerns about the company's heavy debt load.

Photos: Bloomberg News (Mallya, Deripaska); Reuters (Ambani, Suzuki); AsiaInfo (Zhang)

Carlos Tejada/ The Wall Street Journal

The Disarmament President

President Obama gave a gracious speech Thursday accepting his Nobel Peace Prize, starting with the humble note that he has yet to earn it. If his Oslo hosts expected a woolly-headed address about peace in our time, they also didn't get it. He stated clearly that sometimes war is necessary to defend the peaceable and to serve justice and liberty. He even hit the George W. Bush note that "evil does exist in the world."

Congratulations, Mr. President.

On the other hand, Mr. Obama also didn't disappoint the Norwegians, who in giving the award had cited his "work for a world without nuclear weapons." He repeated his commitment to that cause, starting with his effort to rework the Strategic Arms Reduction Treaty of 1991 that expired December 5. So it's worth checking in to see how his disarmament vision is faring in the rougher world of rogues and national interest. The answer is not so well.

The Administration decided that rather than negotiate an extension of the existing Start treaty, a whole new arrangement to limit warheads and delivery systems should be crafted. In July, the U.S. and Russia signed a "framework agreement" to reduce stockpiles by as much as a third. Alas, the Administration was so focused on the numbers that it neglected the stickier details—such as verification, and whether the current Start regime would stay in place if negotiations dragged on.

Though the far weaker party, the Russians have figured out their leverage over an Administration eager to show any progress. Pushing that advantage, Russia has already secured lower ceilings on nuclear weapons and delivery vehicles, scaled back verification, and pocketed other strategic concessions.

> Obama's boffo Oslo speech versus the real nuclear world.

Let's take those in order. The U.S. looks likely to agree to cut the number of permitted delivery vehicles, such as missiles, long-range bombers and submarines, by half, to 800 or less. This is to Russia's advantage, which as of last spring had 814—and not all of them in working condition. Many of America's 1,198 nuclear delivery vehicles—from B-2 bombers to ICBMs—are being fitted with conventional weapons. The ceilings in a new Start would likely make no distinction between bomb types. If the goal is to move away from nukes, why limit the military's capacity to deploy conventional weapons?

As for verification, with fewer allowable warheads, Ronald Reagan's "trust but verify" maxim applies more than ever. Yet Russia wants to reduce oversight, and it specifically told the U.S. that continuous monitoring at the Votkinsk Machine Building Plant would end once Start expired. The Russians are building new RS-24 mobile nuclear missiles at Votkinsk. According to one Russian general, the RS-24 will by 2016 constitute four-fifths of its ICBM forces. Without monitoring, the U.S. won't know for sure how many of these missiles the Russians make and where they are deployed.

While Russia invests in new warheads and missiles, the Obama Administration has yet to lay out its own plans for updating the U.S. nuclear arsenal. Even staunch proponents of arms control concede that to be able to reduce the quantity of U.S. arms, we have to improve the quality. The Senate should ask why the White House isn't.

The Russians also refused to discuss their huge advantage in tactical weapons, and the Administration said OK. After the July "framework agreement," Russia signalled that U.S. plans to deploy missile defenses in Poland and the Czech Republic stood in the way of a final deal. Mr. Obama obliged, informing the Poles and Czechs of his reduced defenses late on the day before the sixth round of Start talks in Geneva. The announcement pleased the Russians, though it still hasn't got Washington a deal. Stay tuned for more concessions as U.S. negotiators try to get it before the year's end.

Meanwhile, the world's rogues continue to pursue nuclear weapons, and Mr. Obama said Thursday that "it is incumbent upon all of us to insist that nations like Iran and North Korea do not game the system." He added that "we must develop alternatives to violence that are tough enough to change behavior." But all the President has to show for a year of courting these regimes is their refusal even to consider giving up either their weapons (North Korea) or their growing capacity to make them (Iran).

The French, for one, see this danger plainly and want the U.S. to press harder on Tehran. But on these hard cases, the Administration can't muster the same sense of urgency it is bringing to the cause of an unnecessary arms control pact with Russia. Mr. Obama is right that he still has to earn that Nobel.

The Next Step for the Philippines

That the Philippines survived President Gloria Macapagal Arroyo's one-week flirtation with martial law relatively unscathed is a victory for the still-young democracy. Now Manila needs to buckle down to fixing the problems plaguing the southern part of the country.

Mrs. Arroyo rescinded late Saturday her imposition of martial law in parts of southern Maguindanao province. The original declaration was prompted by the election-related massacre of 57 people allegedly at the hands of the powerful Ampatuan clan that effectively runs the area. Since then, authorities say they have unearthed large weapons caches. Some leaders of the Ampatuan family were charged with rebellion; they have denied any involvement in the massacre.

The public outcry that forced Mrs. Arroyo to backtrack on martial law is instructive. The president stirred bad memories of military rule under Ferdinand Marcos in the 1970s and '80s. Filipinos demonstrated that they don't want to go down that road again, even if it's presented as a matter of sacrificing liberty for security's sake. Heavy criticism from all corners of society left Mrs. Arroyo with little choice but to backtrack.

That's a victory for civil rights, but the Philippines is still far from solving its democratic and law-and-order problems—and the November massacre is only part of it. This weekend also saw a hostage crisis, an abduction and an Islamist militant attack on a jail, all in the southern region where Manila struggles to exert control.

A central problem is Manila's long practice of cultivating close ties with local clans like the Ampatuans as a counterweight to Islamist and communist insurgents. In a 2006 decree, Mrs. Arroyo even legalized the private armies these families maintain. Last month's massacre was just the most flagrant example of the culture of impunity this policy breeds.

Mrs. Arroyo can start to put the country back on track by vigorously prosecuting the perpetrators of the November massacre despite her own close political ties to the Ampatuans. She could revoke the 2006 decree. And Manila can give military and police the training and funding they need to fight insurgents effectively without recourse to local warlords.

Filipinos have little faith in Mrs. Arroyo to take such bold steps, but at least her term expires next year. Filipinos showed last week they still want a functional democracy. Mrs. Arroyo's successor can try to give them one if she won't.

More, More, More

When it comes to spending, the Democrats who run Washington can't decide on their message. On the one hand, as President Obama said last week, they claim we have to "spend our way out of this recession." On the other, they keep telling us the deficit is too large and isn't "sustainable." In this tug of political spin, watch what they spend, not what they say.

> Watch what they spend, not what they say.

Look in particular at this weekend's Senate vote on a 1,088-page $445 billion "omnibus" package of spending bills to fund the government for fiscal 2010, expected to pass after we went to press last night. The House passed a similar elephant earlier last week, allowing federal agency budgets to increase spending by some $48 billion, or about 12% from 2009. That increase—when inflation is negligible—is in addition to the $311 billion in stimulus already authorized or out the door for these programs. Adding this new stash means that federal agencies will have received a nearly 70% increase in the last two years.

Oh, and that's not all. The President and Congress also want to spend as much as $200 billion more from the Troubled Asset Relief Program on still another stimulus, though this time we are supposed to call it a "jobs" program, because stimulus now has a dirty political name.

This $445 billion bill for 2010 covers most of the domestic agencies of government, but not defense. In the first two months of this fiscal year, which began October 1, Uncle Sam is already $292 billion in the red. That's more than in the first two months of last year and at a time when the economy is growing again, so perhaps the President means we need to keep spending our way out of *recovery*. After the spending bill, Congress will then turn to passing a $1.8 trillion increase in the national debt ceiling, which should get them past the November elections.

Not that the press corps cares anymore, but the omnibus also continues the earmark explosion that Speaker Nancy Pelosi vowed to end when she was trying to oust Republicans in 2006. The Heritage Foundation counts 5,224 earmarks, bringing the total for the year to about 10,000, or about 23 for every Congressional district. There is money for bike paths, skate board parks, museums, water-taxis to resort towns, and other absolute necessities.

Senator Kent Conrad, the ranking Democrat on the Budget Committee, is a walking example of the split Democratic spending personality. He frets that U.S. debt will soon be 114% of GDP, a level he says is "absolutely unsustainable" and a "threat to the economic security of America." Yet he keeps voting for every spending bill and will vote for the multitrillion health bill too.

Even harder to figure is Mr. Obama, who is likely to sign this budget behemoth even as he keeps telling us it's time to "make the hard choices necessary to get our country on a more stable fiscal footing in the long run." Word is that his 2011 budget proposal will propose a spending freeze of some kind, which is another election-year pivot.

After so much double talk, we've concluded this is all part of a conscious political strategy. Spend so much and run up the deficit to unprecedented levels, then turn around and claim that there's a fiscal crisis that can only be solved with higher taxes. They spend, you pay.

OPINION

Taiwan's Détente Gamble

[The Journal Interview with Ma Ying-jeou]

BY LESLIE HOOK

Taipei

Taiwan knows better than most countries what it's like to lie in the shadow of a rising China. Just 100 miles off the mainland's coast—where 1,500 missiles stand aimed and ready to fire—the island is home to a vibrant democracy whose 23 million cast their ballots last March for a president promising détente with Beijing.

That man is Ma Ying-jeou, a Hong Kong-born, U.S.-educated lawyer belonging to the same Kuomintang that lost the civil war to Mao Zedong's army 60 years ago. Mr. Ma has taken a conciliatory approach to Beijing, playing down the differences (technically each side claims the other is part of its territory) and emphasizing their common culture, while trying to sell his constituents on the benefits of economic opening with China.

The President's vision for making peace with China through trade, defense and democracy.

When I met him at the presidential office last month he had a crisp handshake and dark circles under his eyes—he had been jetting around on Air Force One to stump for KMT candidates in the Dec. 5 local elections. But he brightened when he talked about engaging Beijing. "To defend Taiwan, military means is one of the means we are going to use, and it may not be the most important means. We also depend very much on the soft power of Taiwan to engage the Chinese mainland."

For Mr. Ma, "soft power" has meant direct flights between Beijing and Taipei, direct postal links and cargo shipments, and making it easier for mainland tourists to come visit. Next week delegations from Beijing and Taipei will meet in Taichung, in central Taiwan, for a fourth round of official cross-Strait talks, and they are expected to sign agreements on double-taxation, certification standards, fishing crews, agricultural quarantines and the like. There's a lot to be proud of.

"I don't know whether you have taken a cross-Strait flight before? No?" he asks with a slight grin. "If you did then you would probably see how convenient it is compared to barely a year and a half ago [when travelers had to stop over in Hong Kong or Macau]. Also everybody feels relaxed, people even on the other side of the Strait. And we'll continue the current state of affairs, easing tension across the Taiwan Strait, and trying to forge a closer relationship in economic and other fields." He's not kidding about the relaxed atmosphere in Taipei—earlier I strolled into the presidential office without even a cursory bag inspection or ID check.

Mr. Ma has built his diplomacy around what he calls the "three no's"—no unification during his term in office, no pursuit of *de jure* independence, and no use of force to resolve differences across the Strait. This has been successful in large part because it contrasts with the policies of his predecessor Chen Shui-bian, who fought tooth and nail for Taiwan's acceptance as a regular member of the international community. Mr. Chen's relations with Beijing were full of spats, some petty, some not. At one point he rolled out postmarks promoting Taiwanese membership in the United Nations; Chinese post offices promptly returned any mail bearing those postmarks.

While the "three no's" have eased tensions significantly, Mr. Ma still grapples with the question of where the relationship is going long-term. "Whether there will be reunification as expected by the mainland side depends very much on what is going to unfold in the next decade. This is a question no one can answer at this stage. But as the president of this country, I believe that the 23 million people of Taiwan want to secure one or two generations of peace and prosperity so that people on either side of the Taiwan Strait can have sufficient time and freedom to understand, to appreciate, and to decide what to do."

Which is where the U.S. comes in. Mr. Ma's critics charge him with jeopardizing Taiwan's democratic integrity and underestimating the lengths to which the mainland is willing to go to "reclaim" the island. But on one score at least he's clear-eyed on the threats facing Taiwan, particularly as China pumps money into a rapid military buildup. "The relaxed tensions [across the Strait] depend very much on the continued supply of arms from the United States to Taiwan," Mr. Ma explains. "Certainly Taiwan will not feel comfortable to go to a negotiating table without sufficient defense buildup in order to protect the safety of the island."

Under the terms of the 1979 Taiwan Relations Act, the United States is obligated to come to Taiwan's defense if the island is attacked—a scenario that used to dominate threat assessments of the region, but now seems unlikely. With President Obama in the White House, does Mr. Ma ever worry about the U.S. commitment to security in the Asia-Pacific region?

He is quick to dismiss any differences, saying that "we feel quite at ease" with Mr. Obama's November visit to the region. "I think his policies toward this part of the world have not deviated from those of the past President of the United States," he explains. "And he also told his [Chinese] host that he would continue to sell arms for the defense to Taiwan."

It will soon be clear whether Mr. Obama will deliver on that: Taiwan is waiting for the State Department to notify Congress about a pending arms package that includes Black Hawk helicopters, submarine designs and an upgrade to the Patriot missile defense system—items first announced under the Bush administration in 2001. Mr. Ma seems in no hurry: "They are already in the pipeline. A few years is not unreasonable."

* * *

The more urgent task, as far as Mr. Ma is concerned, is opening up Taiwan's economy to China so that the two sides can strengthen their trade ties—and Taiwanese voters can enjoy the economic benefits of the rapprochement. Mr. Ma's signature project is the Economic Cooperation Framework Agreement, an all-encompassing treaty that would cover tariff reductions, market access and economic cooperation in areas like intellectual-property enforcement.

The ECFA, as it is known, has proved a tough sell: The opposition Democratic Progressive Party says the deal will "steal" millions of Taiwanese jobs and flood Taiwan with cheap Chinese imports—arguments that resonate deeply in Taiwan's agricultural south. This is part of the reason the Democratic Progressive Party saw solid gains in the Dec. 5 local elections. Their arguments are bolstered by the fact that so far, despite the cross-Strait flights and the new, "relaxed" atmosphere, Taiwan's exports to China have actually fallen as a share of China's total imports this year as compared to last year. That's not necessarily Mr. Ma's fault—demand for Taiwan's exports plummeted during the global financial crisis—but the timing is not helpful politically.

Mr. Ma is not exactly a free-trader. He boasts that he has maintained all restrictions on agricultural imports and kept Chinese workers out of the country—two key voter concerns. But he understands Taiwan will suffer badly if it doesn't open up. "As the pace of regional economic integration continues to increase, we are afraid that Taiwan might be left in the cold and marginalized."

He's on a tight deadline, too. "In our case there is an urgency in the sense that when the Asean-mainland China [free trade agreement] comes into existence [in January] it will affect some of our exports to the mainland," because certain goods from the 10-member Association of Southeast Asian nations will enter China tariff-free. He cites petrochemicals, machinery, auto parts and some textiles as items of particular concern to Taiwan.

Terry Shoffner

The ECFA is not only about trade with China; Mr. Ma hopes it will solidify trade ties with other countries as well. Taiwan wants to sign free-trade agreements with major economies like the U.S., Japan and Korea, he explains, but can't because "the mainland has always obstructed our efforts to make such an agreement."

Taiwan is also trying to figure out how to benefit from China's growing economy without getting stung by its political system, or flooded with RMB. Mr. Ma says it is important to open up to China in a "very cautious fashion." "We have already allowed mainland business to invest in Taiwan, but only in roughly 100 items or so."

In terms of opening the financial sector, he says the two sides have "by and large" agreed to let each other's banks come in, "but under different conditions." The ECFA will contain some provisions to "make sure the financial order in this country will not be disrupted as a result."

He is also confident Taiwan's institutions will prove resilient in the face of any untoward influence from Beijing. "We have more than 70,000 business firms investing on the Chinese mainland, employing millions of Chinese workers. They could have used that to, you know, interfere in our politics or whatever, and so far that's not that prominent. This is a very democratic and transparent society. Anything of that sort would certainly be reported and affect the cross-Strait relations."

* * *

Ultimately Mr. Ma thinks opening up will develop its own momentum—and repercussions for China. "We have already transformed Taiwan from a poor, agricultural, relatively not-so-free society into a modern economy, with model democracy. And that has tremendous impact on the Chinese mainland, when they are also struggling to have more economic freedom and possibly political freedom."

Chinese tourists who visit Taiwan are a central part of his vision. "Not everyone is so impressed with the scenery," he begins modestly. "But they are very impressed by the society. It's really a free society. It's a society [where] individuals respect each other's rights and privacy, and the right to freedom of speech, and all that. And they also admire some of our democratic institutions, although sometimes they may feel that it's a little bit chaotic."

He sees this as a historic opportunity: "I want to create a situation where the two sides could. . . see which system is better for the Chinese culture, for the Chinese people." It's a dream his counterparts in Beijing don't share: China's leaders are a long way from embracing Taiwan's democratic experiment, and they have proved quick to grasp the potential threat of democratic influence from Taiwan, placing specific restrictions on Chinese tourists who go there.

As with any country grappling with China's rise, the success of engagement will turn on how well Mr. Ma knows China. In Taiwan he is seen as being quite Chinese—he speaks Mandarin better than Taiwanese dialect, for example. But critics say he's too naive about the country he is dealing with. All of the various engagement efforts are, in essence, a bet that Beijing will turn out to be a reliable negotiating partner—a partner that can be trusted to, say, move its missiles away from the coast, or allow the full quota of mainland tourists to leave the country.

Mr. Ma is open to the idea that both sides have a lot to learn about each other. "The people on the Chinese mainland do not quite understand my policy," he muses as our interview goes into overtime, referring to his "three no's." "Sometimes they don't understand why we don't want unification. I said, well, it's quite obvious that conditions for unification are not ripe. And we don't even know each other that well."

Ms. Hook is an editorial writer for The Wall Street Journal Asia.

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OPINION

Naked Copenhagen

By Richard Muller

Imagine a "dream" agreement emerging from Copenhagen this week: The U.S. agrees to cut greenhouse emissions 80% by 2050, as President Barack Obama has been promising. The other developed countries promise to cut emissions by 60%. China promises to reduce its CO_2 intensity by 70%

Temperature is increasingly at the mercy of the developing world.

in 2040. Emerging economies promise that in 2040, when their wealth per capita has grown to half that of the U.S., they will cut emissions by 80% over the following 40 years. And all parties make good on their pledges.

Environmental success, right? Wrong. Even if the goals are all met, emissions will continue rising to nearly four times the current level. Total atmospheric CO_2 will rise to near 700 parts per million by 2080 (the current level is 385), and—if the U.N. Intergovernmental Panel on Climate Change (IPCC) models are right—global temperature will rise about six degrees Fahrenheit at mid latitudes.

The reason is that most future carbon emissions will not come from the currently industrialized world, but from the emerging economies, especially China. And China, which currently emits 30% more CO_2 per year than the U.S., has not promised to cut actual emissions. It and other developing nations have promised only to cut their carbon "intensity," a technical term meaning emissions per unit of GDP.

China claims it is already cutting CO_2 intensity by 4% a year as part of its five-year plan. President Hu Jintao has hinted that at Copenhagen China will offer to continue such reductions. By 2040, that will add up to a 70% reduction in intensity.

Sounds good, but here's the catch: With 10% annual growth in China's economy, a 4% cut in intensity is actually a 6% annual increase in emissions. India and other developing countries have similar CO_2 growth. That 6% yearly increase is what is shown in the nearby chart.

True, China's CO_2 per capita is only a quarter of the U.S. emissions rate. But warming doesn't come from emissions per capita, it comes from total emissions.

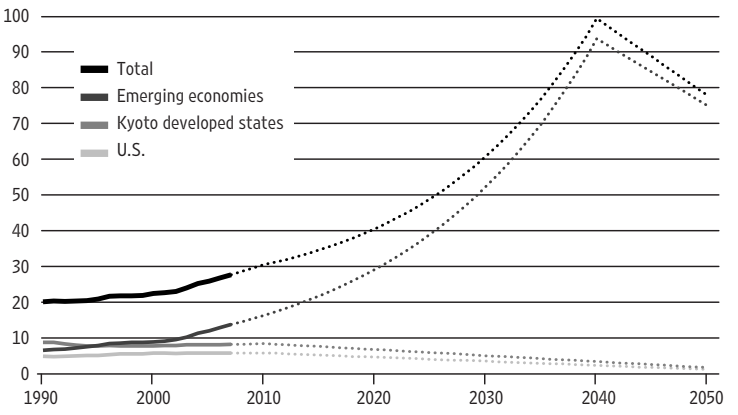
China's carbon intensity is now five times that of the U.S.; it is extremely carbon inefficient. By the time the Chinese cut emissions intensity by 45%, its yearly total will be over twice that of the U.S. And in the proposed Copenhagen dream scenario, by 2025 China's emissions will actually surpass those of the U.S. per capita.

If the issue is rising emissions in the next several decades, the bottom line is simple: The developed world is rapidly becoming irrelevant.

Every 10% cut in the U.S. is negated by one year of China's growth. By 2040 China could be the most economically dominant nation on earth. The West might be able to cajole it, but won't be able to impose sanctions on China. Temperature will be at the mercy of the newly powerful economies.

The West's Carbon Emmissions Are Irrelevant

Growth in CO_2 emissions, in billions of tons per year following Copenhagen agreement



Assumptions: Cuts of 80% by U.S. and a 60% cut by Kyoto developed states by 2050; a 4% per year cut in carbon intensity until 2040 by China; Chinese economy grows at 10%; other emerging economies grow at 6%; and emerging economies begin 80% cut in 2040.

Source: Data from 1990-2007, IEA. Data from 2008-2050, Muller & Associates

Moreover, an expensive effort to reduce Western emissions sets a worthless example. Only emissions cuts that provide measurable economic benefit to the developing nations will be adopted by them. If the 80% U.S. emissions cut winds up hurting the U.S. economy, it guarantees China will never follow our example.

Cheap green energy is not going to be easy. Coal is dirt cheap, and China has been installing a new gigawatt coal plant each week—enough to supply five completely new cities the size of New York every year.

Technological change can help a great deal. For now carbon capture and sequestration (CCS) from coal combustion is unproven, but so is cheap solar. I expect we can make CCS work. Perhaps the West can subsidize CCS in China or pay to make its plants CCS ready. A dollar spent in China can reduce CO_2 much more than a dollar spent in the U.S.

There is another alternative: luck. Here's how it could help. Scientists are aware of a phenomenon that would counter the greenhouse effect: warmth evaporates water; water creates clouds; clouds reflect sunlight. A small cloud increase would significantly reduce predicted warming. The IPCC gives such cloud feedback only a 10% chance. My estimate is 30%. Clouds may already be kicking in, responsible for the negligible global warming of the past 12 years. Maybe, but we don't know. That's why we need luck.

Perhaps we could geoengineer a solution: Squirt a few million tons of sulfur dioxide into the stratosphere to reflect sunlight, emulating the 1991 Mt. Pinatubo eruption. We'll certainly get pretty sunsets. Or we could foam up the oceans to increase reflectivity. Many people find such ideas scarier than warming because of the threat of unintended consequences.

Another option is that we could learn to live with global warming. Despite claims to the contrary, storms aren't increasing. The rate of hurricanes hitting the U.S. coast has been constant for a century, and the number of damaging tornadoes has been going down. Will Happer, a former director of research for the Department of Energy, argues that additional CO_2 may have helped the agricultural revolution. And chilly Berkeley might be nicer with a few degrees warming.

But the bottom line is that 80% cuts in U.S. emissions will have only a tiny benefit. The bulk of our effort is best directed at helping the emerging economies conserve energy and move rapidly toward efficient solar, wind and nuclear power. Developing cheap carbon capture and sequestration is also a priority. Above all, we need to recognize that make-the-West-bear-the-burden Copenhagen proposals are meaningless.

Mr. Muller is professor of physics at the University of California, Berkeley, and author of "Physics for Future Presidents" (Norton, 2008). References and a spreadsheet with the numbers for the chart are at www.mullerandassociates.com.

ObamaCare Keeps Falling in the Polls

By John Fund

The U.S. Senate's compromise bill on health care was announced on Wednesday to much fanfare. But there's not much there for moderate Democrats to write home about. It waters down a provision creating a "public option," but it also expands (to include people over 55) Medicare, a program already expected to go bankrupt in 2017.

The Senate bill is so unwieldy that the health-care system it will create will almost certainly break apart and force us into Canadian-style care. As Rep. Anthony Weiner (D., N.Y.) said in a statement, the Medicare expansion "would perhaps get us on the path to a single payer model." That grim prospect means there's still a chance to defeat or reshape the health-reform effort.

Opponents of ObamaCare will be aided by polls showing that it is even less popular than HillaryCare was a year into the Clinton presidency. Back in December 1993, Gallup found that 47% of voters backed HillaryCare, with 32% opposed. Today, an average of health-care surveys at Pollster.com shows support for ObamaCare at 38.8%, with 51.4% against.

The difference is that in 1993 and 1994, ads pointing out the weaknesses of HillaryCare were ubiquitous on TV. This time the White House has bullied the health-care industry into silence or sullen support.

But the falling poll numbers tell us anyone who tries to force a full health-care debate that pushes a vote past the holidays will not suffer politically. One reason the Democrats are frantic for a vote before Christmas is that they fear what will happen if senators have to go home and talk with constituents before voting.

Even if the Senate passes something before Christmas, House Speaker Nancy Pelosi (D., Calif.) says the bill will likely have to go to a conference committee. There differences between The Senate version and the bill that has already passed the House must be reconciled.

Mrs. Pelosi says "we'd do almost anything" to finish the bill this year. But it is unlikely the House will be able to vote on a final bill until January. That delay gives opponents time to raise money for a campaign aimed at House members who were dragooned into voting for the Pelosi bill in November.

That legislation only passed 220 to 215. There will be new pressures on members for a second vote. Louisiana Rep. Anh "Joseph" Cao, the lone Republican to vote for the bill, may not be able to support it again without strong limits on funding abortions—and several Democrats might feel compelled to join him.

A business ad campaign could turn the tide even in the House.

Meanwhile, the new Quinnipiac poll reports that 63% of Americans believe covering the uninsured will increase their own costs, and that includes 44% of Democrats. Voters by 48% to 46% believe extending coverage to the uninsured would decrease the quality of their own care—including a majority of independents and 26% of Democrats. A full 74% of people don't believe the president's claim that health reform won't add to the deficit, including 53% of Democrats.

There is also the issue of jobs. The unemployment rate is 10% and a new study by the National Federation of Independent Business estimates that mandating that employers provide health care will cost 1.6 million jobs by 2013.

These are all potent issues if TV ads and grass-roots activism can be directed into the districts of House Democrats vulnerable to defeat in 2010. Fourteen Blue Dog Democrats who voted to pass health-care reform last month represent districts rated as leaning Republican by the Cook Political Report. Another nine Democrats hail from districts that are only slightly Democratic. Pressure will be put on the 39 Democrats who voted no the first time to switch their vote, but they will be hard to budge. There are enough votes among the three groups to make it agonizingly difficult to pass health care a second time.

Speaker Pelosi has told her members that health-care reform is so important she is willing to lose 20 seats next year if that is what it takes to get it. Polls showing Republicans leading in the generic vote for Congress make some Democrats worry that she is seriously lowballing the risk. She may not mind if some members lose their seats, especially if they are moderates who are possible future votes against her in a leadership contest. The Blue Dogs who are the subject of her political science experiment may decide they'd rather not be her guinea pigs.

Mr. Fund is a columnist for WSJ.com

Notable & Quotable

Tina Brown at The Daily Beast, Dec. 3:

It's a strange paradox for a great wordsmith, but whenever Obama makes an important policy speech these days he leaves everyone totally confused. His first health-care press conference back in July triggered a season of raucous political Rorschach. . . . Now White House envoys are being dispatched all over the globe to explain what the president really meant about the date when troops will or won't be pulled out of Afghanistan. . . .

I have come to the conclusion that the real reason this gifted communicator has become so bad at communicating is that he doesn't really believe a word that he is saying. He couldn't convey that health-care reform would be somehow cost-free because he knows it won't be. And he can't adequately convey either the imperatives or the military strategy of the war in Afghanistan because he doesn't really believe in it either.

Future of Finance
THE JOURNAL REPORT
DOWJONES A NEWS CORPORATION COMPANY
ASIA

Fixing Global Finance

At The Wall Street Journal's second Future of Finance Initiative, top financiers had plenty of suggestions for reforming the system. But they would only go so far.

Too Big to Fail

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Regulatory Frontier

TOP PRIORITY:
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More than a year has passed since an unprecedented crisis pushed the world financial system to the brink. Yet plans to rebuild that system on more stable footing remain embryonic. Differences among regulators, businesses and governments have slowed reform plans. And hefty bank profits, fed by easy credit and government aid, have drained the sense of urgency.

To re-energize overhaul efforts, The Wall Street Journal last week gathered 80 top financiers at a lodge south of London for its second Future of Finance Initiative. The group, which included bank executives, hedge-fund operators, money managers, policy makers and academics, deliberated on the most important steps moving forward.

Their recommendations acknowledge the need for a stronger role for government regulators. At the top of their list was a call for increasing the capital that financial institutions must hold, with higher requirements for institutions posing greater risks to the system. Second on the list was a call for the Financial Stability Board to impose toughened regulatory standards across nations.

The financiers, however, shied away from other, more intrusive government actions. They rejected a proposal requiring institutions to get regulatory approval before selling innovative new products. They steered clear of proposals that would force institutions deemed "too big to fail" to divest certain businesses. And they dodged the explosive issue of compensation.

That led one ex-regulator, former Federal Reserve Board Chairman Paul Volcker, to chastise the group for not going far enough. "Wake up, gentlemen," he said. "Your response is inadequate."

This report includes the group's 20 recommendations for action, as well as highlights of the meeting's discussions. Given the considerable knowledge and expertise of the participants, this report should shed light on the path to a healthy and stable future for global finance.

—Alan Murray

PLUS: An interview with Paul Volcker on the downside of innovation, *18*

International Regulation

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EMPOWER THE FINANCIAL STABILITY BOARD
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Financial Innovation

TOP PRIORITY:
OVERHAUL RATING AGENCIES
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ILLUSTRATIONS BY RAY BARTKUS

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A Call to Action

Participants in The Wall Street Journal's Future of Finance Initiative were divided into four groups, each looking at a specific aspect of the future of finance:

- How to deal with financial institutions deemed too big to fail;
- How national regulatory authorities can effectively oversee global institutions;
- How to deal with financial institutions at the regulatory frontier, that act like banks but aren't regulated as banks;
- How to address complex, innovative products, like credit default swaps and collateralized debt obligations.

Each group came up with their top five priorities for how to rebuild the financial system. All the participants in the Initiative then convened and voted on the order of priority. Here are the 20.

1. HIGHER CAPITAL REQUIREMENTS Financial institutions whose systemic importance requires national authorities to underwrite them if they fail should be required to hold more capital. This should include increasing risk weightings, asset/liability limits based on the business model rather than on simple capital ratios, as well as contingent capital and dynamic provisioning.

2. EMPOWER THE FINANCIAL STABILITY BOARD The Financial Stability Board should be empowered to define and seek agreement on broad-based principles that national regulators should try to make operational in consultation with market participants.

3. PROMOTE RISK MANAGEMENT Boards should be required to demonstrate a full understanding of risks in new products. Elevate risk managers to at least the same level as product makers and give them adequate representation at board level. Create globally recognized qualifications for risk managers, and implement standard certification through a risk "driving test."

4. IMPROVE REGULATOR RESOURCES Ensure that regulators are high quality and have deep knowledge of the industries and institutions they oversee. Regulator compensation should be competitive with compensation in regulated industries. Industry should "second" senior people to support the Financial Stability Board and regulatory bodies.

5. BETTER GOVERNANCE Hold systemically important institutions to higher standards of governance. Chief risk officers should report to the board and not the chief executive. Achieve greater transparency.

6. AVOID REGULATORY ARBITRAGE To make global co-operation feasible and promote a level playing field, regulations should be of an achievable scope. Financial activities of similar substance and economic reality should be regulated in the same way from country to country.

7. OVERHAUL RATING AGENCIES Restore investor confidence in rating agencies by eliminating conflicts of interest between agencies and issuers, returning to an "investor-pays" model, distinguishing between ratings of corporate debt and structured financial products, and promoting new entrants to the credit-rating business.

8. MARKET INFRASTRUCTURE Create a market structure to facilitate orderly unwinding of failed financial institutions, including greater use of central clearing.

9. COUNTRIES SHOULD FOLLOW THE FINANCIAL STABILITY BOARD G-20 countries should commit to implement in their jurisdictions the regulatory provisions put to them by the FSB, without significant amendment or supplementation.

10. NEW-PRODUCT TRANSPARENCY Improve structural and price transparency of new products, using modeling and stress testing to ensure that downside scenarios are as visible as upside scenarios.

11. REGULATORS ADOPT PRIORITIES Global regulators over the next 18 months should achieve agreement on the adoption of accounting standards set by the International Financial Reporting Standards and appropriate capital and liquidity standards.

12. EFFECTIVE ENFORCEMENT The consequences of bad actions must include real "wallet harm" in order to be effective, and enforcement must be consistent across national boundaries.

13. GLOBAL IMBALANCE FOCUS The G-20 should focus on resolving global economic imbalances and integrate that process with discussions on financial stability.

14. REBUILD RESPONSIBILITY Regulation alone is not the cure. The financial-services industry must show cultural leadership and promote responsible behavior by all practitioners.

15. STRENGTHEN INFRASTRUCTURE Ensure financial infrastructure is commensurate with the innovation it supports, both at the firm and the market level.

16. RESIST OVER-REGULATION Because financial innovation is central to growth and critical to a speedy recovery, the G-20 and successors should recognize that new rules and protocols should not thwart innovation, and the cost of regulation must be balanced against the benefits.

17. REGULATORY MANDATE Regulators should have a clear and strong mandate for financial stability, and should cooperate across borders and maintain a level playing field.

18. LIVING WILLS Systemically important banks should present regulators with living wills demonstrating how they would wind down business in the event of unsustainable losses. Cross-border arrangements should provide for burden-sharing in the event of failure.

19. DON'T REGULATE BORROWERS Regulators should focus on the source of credit, not on borrowers, using capital requirements to restrict excessive leverage among borrowers, including alternative-asset managers.

20. CLARIFY IMF ROLE The International Monetary Fund should focus on global imbalances and defer to the Financial Stability Board on financial-stability principles while continuing to have surveillance responsibilities. IMF quotas should be revised to reflect global economic realities.

Too Big to Fail

Mark Bourdillon for The Wall Street Journal

From left: Ken Costa, Pierre LaGrange and Alessandro Profumo

The discussion of the task force on financial institutions considered too big to fail focused on prevention and treatment: What steps can be taken to prevent failures while still keeping the financial sector healthy and profitable? What should be done if one of these institutions actually does fail?

The Wall Street Journal's Ken Brown moderated the discussion. Here are edited excerpts of the presentation of the task force's priorities, including questions from the audience.

KEN BROWN: *The first question that we had to address is what is too big to fail and how to deal with it. There was a lot of back and forth on the definition and also on how to get our arms around regulators, what these businesses will be allowed to do, how much capital they can hold and how much capital they should hold.*

One of the conclusions that we came to was interesting, because it was really an attempt to say that banks need to be smarter and behave better, and that regulators need to be smarter and behave better. Our first—and winning—contender was "overall better governance."

KEN COSTA: We looked at governance issues and solutions to the "too big to fail" question.

Three potential solutions. Either break up the bigger banks; here we had a very spirited argument from at least one person that they were too big to manage, but the voting didn't record that.

The second was to separate out the trading businesses from the deposit-taking parts of the bank, and again, there was not much enthusiasm for that.

So, we were left with better regulation and greater governance internally from the financial institutions. In particular, we came to the view that for those that are systemically important financial institutions, a very much higher standard of governance was needed.

The Need to Unwind

MR. BROWN: *Number two is what we dubbed "market infrastructure," but really it is the idea of how you can set up a system where systemically important banks can unwind. Number three was the point of trying to prevent that from happening.*

PIERRE LAGRANGE: Yes, number two was really about creating a market infrastructure that would also reassure people, creating transparency of the connection between all the banks that are deemed potentially to be failing, and the best example of that was to do a centralized clearing for derivatives and credit-default swaps.

The third point was on capital requirements. The banks with systemic importance, if they needed authorities to underwrite them, should have higher capital. That got quite a consensus.

The notion of higher capital then gets into details, where it was very important to a lot of people that we don't fix ourselves with either a leverage number, or an equity tier one, or a core tier one, or a risk-weighted assets number, but global liquidity and asset-liability management. If we were looking at the history of failures, a lot of them came not only from the assets or from the capital, but also from the liquidity.

It is a case of mixing these and also making them based on the business model, so trying to make sure that the regulator and the risk management of the individual firms are taking into account, let's say, a bank whose real assets would be 30% of the assets, it is not the same as one where it is 90% of the assets, and they should have different capital because they are different animals.

We also thought that we should have more contingent capital, because it makes a higher participation and a lower socialization of the

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TOO BIG TO FAIL CO-CHAIRS

KEN COSTA *Chairman, Lazard International*

PIERRE LAGRANGE *Partner, GLG Partners*

ALESSANDRO PROFUMO *Chief Executive Officer, UniCredit Group*

The Top Five Recommendations

1. BETTER GOVERNANCE
Hold systemically important institutions to higher standards of governance. Chief risk officers should report to the board and not the chief executive. Achieve greater transparency.

2. MARKET INFRASTRUCTURE
Create a market structure to facilitate orderly unwinding of failed financial institutions, including greater use of central clearing.

3. HIGHER CAPITAL REQUIREMENTS
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Regulators should have a clear and strong mandate for financial stability, and should cooperate across borders and maintain a level playing field.

International Regulation

Mark Bourdillon for The Wall Street Journal

From left: Sir Andrew Crockett, Dame Clara Furse and Richard Gnodde

Who should be driving improved and better coordinated global regulation? The strong consensus of the task force on global regulation was that it should be the Financial Stability Board, a collection of central bankers and financial regulators given a mandate by the leaders of the Group of 20 in London to devise ways to reduce the risks of repeating the crisis of the past two years. The chairman is Mario Draghi, now head of the Bank of Italy.

The Wall Street Journal's David Wessel moderated the task-force discussion. Here are edited excerpts of the presentation of their priorities, with additional questions from the audience.

MR. WESSEL: *We had a lively discussion informed by the fact that there were a number of people in the room who had been on the government side of this, particularly in the business of getting international agreement on things, which made the discussion a great deal more realistic. The first item on our list which had the most support—we call this the "make life better for Mario Draghi" item—is empowering the Financial Stability Board.*

RICHARD GNODDE: The basis of this discussion was the premise that markets are global and, for markets to stay global, there needed to be some global regulation. This was driven by a desire to avoid financial protectionism. There was a discussion about which body should really drive this, and I think the group really came down unanimously to the FSB. The FSB should be empowered by the G-20, should focus on key global issues, should be appropriately resourced, and the actions taken by the FSB should have real impact and real bite.

MR. WESSEL: *The second item had to do with the broader macroeconomic issues; the G-20 should focus on resolving global economic imbalances and integrate that process with the discussions under way on financial stability.*

DAME CLARA FURSE: The discussion we had resonated strongly with what Shriti Vadera [adviser to the G-20 presidency] was saying this morning. The group felt strongly that we needed to establish a forum which enabled us to work toward the strategic agenda, the global growth agenda and the reconstruction agenda. It's clear that the G-20 has made its mark and has established the credibility to build on what has been achieved so far. It's also clear from what Shriti was saying this morning that this is a big task, it will require strong political leadership and it will be a real challenge, but we do need to work toward establishing what she referred to as economic and financial governance at the global level.

Commitment Needed

MR. WESSEL: *The third item had to do with the responsibilities of the member countries of the G-20—essentially, if they are going to agree to do something at the FSB, they should actually commit to doing it.*

SIR ANDREW CROCKETT: This is another recommendation that supports the work of Mario and his group. Our group felt that if there was an upfront commitment on the part of the G-20 to implement whatever FSB recommendations came out, it would be a form of pressure on countries not simply to talk and make recommendations, but they would be obliged to implement them. Implementation is not simply a matter of adopting the regulations and putting them into national law, but some degree of enforcement and implementation when they were implemented by the national supervisors and regulators.

MR. WESSEL: *The fourth item had to do with the importance of giving regulators some sense of what their priorities should be.*

MR. GNODDE: The discussion here was essentially the challenge of getting the global community to accept global regulation, alongside or in conflict with national regulation. So there was a sense that these global organizations should be given a sense of priorities, some very important and clearly obvious global challenges to get stuck into, and really to stay away from certain other, less important issues. We tried to get a sense of priorities together, and not surprisingly there was a focus on increased capital, liquidity and those sorts of issues. And so for the FSB to really focus on those at the outset and then move to other issues once they have got momentum and got up and running.

MR. WESSEL: *What about accounting standards?*

MR. GNODDE: Accounting standards are a real priority for the world to be able to look at financial institutions on a common basis and for transparency to understand the risks inherent in any organizations, so there is a real imperative to move forward and to get this done quickly. I'm not sure if this is practical or not, but the group set an 18-month time frame to get this implemented on a global basis.

MR. WESSEL: *Finally, we turn to what should the role be of the International Monetary Fund and how do we define its focus.*

SIR ANDREW: I think we sensed that there needed to be clarity in the distinction between the functions of the IMF and the FSB, and the group felt that the FSB was clearly the forum in which principles for financial-stability regulation should be enunciated. The IMF had the responsibility for macroeconomic surveillance that it has always had, and probably had the responsibility because it had the resources and personnel, for overseeing the implementation of the rules generated by the Financial Stability Board.

The other point that was made was that the IMF would not have the legitimacy to perform its functions if it wasn't reformed, particularly in respect of the voting rights for countries that are presently unrepresented, and if it didn't reflect better global economic realities.

Role of Private Sector

MR. WESSEL: *We had a great deal of discussion about the role that private banks play in this process. I wonder if Mr. Mulford [David Mulford, vice chairman, international, Credit Suisse, and former U.S. Treasury undersecretary] could explain what you thought the role of the private sector is in this goal.*

DAVID MULFORD: If the FSB is going to undertake this task on a realistic basis, it really would need to come up with principles which were then processed or discussed or evaluated by both the regulators and players in financial markets in a consultative mode, in order to give them any chance of becoming operational. If you are going to do more than just an academic process, you have to have buy-in, and you need both those parties for that process.

ALAN MURRAY: *Could you talk about things that were discussed in the group but rejected?*

MR. GNODDE: There was a discussion about whether incentives could be put in place to incentivize countries to come into line and to follow the FSB, and this was really an attempt to get beyond the G-20. Obviously, we've come a long way moving to the G-20 level, but there are still a lot of people outside of that organization. The question was how could you bring them into the fold and what incentives could be put into place to make that happen. ▦

The Top Five Recommendations

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G-20 countries should commit to implement in their jurisdictions the regulatory provisions put to them by the FSB, without significant amendment or supplementation.

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INTERNATIONAL REGULATION CO-CHAIRS

Sir Andrew Crockett *President, J.P. Morgan Chase International*

Dame Clara Furse *Former Chief Executive Officer, London Stock Exchange Group*

Richard Gnodde *Co-Chief Executive, Goldman Sachs International*

Financial Innovation

Mark Bourdillon for The Wall Street Journal

From left: Thomas Callahan, Eraj Shirvani, Michael Spencer

Observers have cited surging financial innovation as a big factor in the markets bubble before 2008 and in the crash that followed. New and often little-understood financial products were blamed for reducing transparency, and for leading investors to rely excessively on rating-agency judgments about those complex assets.

Stephen Fidler of The Wall Street Journal moderated the task-force discussion on ways of reducing risks to the financial system brought about by financial innovation. Here are edited excerpts from the presentation of their priorities.

STEPHEN FIDLER: *The first recommendation was to restore investor confidence in rating agencies.*

MICHAEL SPENCER: Clearly, there was a material malfunction by the rating agencies during the financial crisis. We had an unprecedented number of complex securities which received very, very high ratings, only subsequently to collapse rather precipitously. It was clearly a failure that needs to be looked at and, if possible, addressed, which is not an easy objective.

First, we need to separate the remuneration of the agencies, if possible, so that the issuers or the promoters of financial products are not the ones who are paying the rating agencies, to see if we can go back to an environment in which an "investor-pays" model is possible.

There also needs to be a distinction between the rating of vanilla

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FINANCIAL INNOVATION CO-CHAIRS

Thomas Callahan *Chief Executive Officer, NYSE Liffe U.S.*

Eraj Shirvani *Head of Fixed Income and European Credit, Credit Suisse*

Michael A. Spencer *Chief Executive Officer, ICAP PLC*

Regulatory Frontier

Mark Bourdillo for The Wall Street Journal

From left: Elizabeth Corley, Robert M. Kimmitt and James Leigh-Pemberton

With so much attention focused on regulatory lapses in the last financial crisis, one of the most basic questions has been ignored: What should be regulated? This panel delved deeply into the role of the practitioners versus those of regulators.

The Wall Street Journal's Nikhil Deogun moderated the task-force discussion on the regulatory frontier. Here are edited excerpts of the presentation of the panel's priorities.

NIKHIL DEOGUN: *We had our five subjects, and this might surprise you, but the overwhelming favorite was something to improve the resources for regulators.*

ELIZABETH CORLEY: First, it is important to say that there was unanimity on this. Everybody—and we're largely a practitioner group—was committed to support the regulatory structures with highly competent resources. There was a comment that typically you do get some deployments between regulators and industry and vice versa, but actually it is very often compliance function to legal function and back.

We were saying that this has to be front office, senior professionals, where the seconding company—the deploying company—would maintain their compensation at the level it would have been had they been continuing to be employed within the organization. Similarly, that it should not be for a long term—two to three years maximum—and also to try and sustain a degree of tension between industry and regulator; it shouldn't become too familiar with one organization.

Nevertheless, we felt that if we were going to get more regulation, the most critically important thing was that it was well-drafted regulation and that it was well-enforced and with relevant backup.

MR. DEOGUN: *Next up is avoiding regulatory arbitrage.*

ROBERT M. KIMMITT: It seems that we are moving at a couple of speeds right now with more going on in Europe and in the U.S. Clearly this needs to be done to the greatest extent possible, on a global basis, even though some political systems might move at a different pace.

JAMES LEIGH-PEMBERTON: I think the task, as defined, was to establish where the regulatory frontier should be drawn. We seek to answer that question primarily by coming to point three—about not regulating borrowers—but it relates to point two in the following sense: The point at which the regulatory frontier should be drawn should be in part defined by the feasibility of the regulatory project. It cannot have a scope that is so great as to render it unachievable.

MR. DEOGUN: *Our next recommendation is in some ways potentially our most controversial. There has been so much discussion about regulating leverage and hedge funds. James and Elizabeth, in particular, spoke very eloquently about making sure that if we are going to regulate, we regulate the source of the funding, the source of the leverage, and not necessarily the borrower.*

MR. LEIGH-PEMBERTON: I think that, again, this discussion revolved around where the frontier is set. We had the benefit of a number of alternative-investment fund-management companies represented in the room with us and therefore took the opportunity to ask, "Where does your leverage come from?"

The answer was, "Our leverage comes from the banks that provide it to us." If, therefore, we wish to control the degree to which alternative-investment management companies are leveraged, it is probably most productive to focus on regulating the degree to which the lending banks—as broadly defined—provide that leverage. There was discussion about how that might be achieved, and I think the consensus that was reached was that by capital charges associated with different risk categories of lending, such lending could be limited to a level that is regarded as prudent by regulators.

MR. DEOGUN: *We were talking about better-equipped regulators, and one of the subjects we tackled was how to result in better enforcement.*

MR. KIMMITT: As indicated in our first three recommendations, we wouldn't go as far as some in regulation, including Howard Davies's notional call for equal regulation of financial institutions including hedge funds, private equity and investment managers. At the same time, the group did support—even encouraged—significant attention and resources to be devoted to enforcement of laws both existing and future. And it has to be done in a manner that effectively punishes but also dissuades such behavior in the future, and to the extent possible is done on a consistent manner across borders.

MR. DEOGUN: *The last point that we hit was to put more responsibility on the practitioners themselves.*

MR. LEIGH-PEMBERTON: Regulation by itself will not ensure financial stability. It is, in fact, the role of the practitioners in the financial-services industry to define their function by reference to the preservation of financial stability, and the cultural changes associated with that need to be promoted by regulators, of course.

The responsibility for delivering them, however, lies ultimately with the practitioners in terms of what they do every day, in purely practical terms, and many of the things that have gone wrong with regard to governance, with regard to risk control and with regard to what one might call attitude as a whole, lie in this area. ▦

The Top Five Recommendations

1. IMPROVE REGULATOR RESOURCES
Ensure that regulators are high quality and have deep knowledge of the industries and institutions they oversee. Regulator compensation should be competitive with compensation in regulated industries. Industry should "second" senior people to support the Financial Stability Board and regulatory bodies.

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REGULATORY FRONTIER CO-CHAIRS

Elizabeth Corley *Chief Executive Officer, Allianz Global Investors Europe*

Robert M. Kimmitt *Chairman, Deloitte Center for Cross Border Investment*

James Leigh-Pemberton *CEO, United Kingdom, Credit Suisse*

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products, such as fixed-income securities, and more complex instruments. On top of that, we are rather restricted in the number of rating agencies; we thought it was a good idea if an environment for creating new rating agencies was possible.

MR. FIDLER: *The second recommendation was to improve the transparency of new financial products.*

THOMAS CALLAHAN: Lack of transparency was one of the core issues of the financial crisis. It manifested itself on many different levels. If we as an industry are going to be allowed to continue to innovate, we really need to address this lack of transparency head-on. There can be many types of modification: greater transparency around how deals are structured; embedded leverage and embedded derivatives are important; certainly we need greater modeling that will show equally the downside and the upside based on price performance so you can no longer just say, "Well, the rating agency told me it was AAA."

MR. FIDLER: *The third item was "resist over-regulation."*

ERAJ SHIRVANI: There was a broad consensus that instead of restricting innovation we should be thinking of how we actually encourage innovation, given that it is absolutely critical to economic growth and very central to the recovery. So, besides some of the macro issues, there are pragmatic issues to think about, such as how do you regulate product innovation and who would actually do it.

MR. FIDLER: *For the fourth recommendation, we discussed elevating responsibility for risk management to the board level, and better education of risk managers.*

MR. SPENCER: Risk managment has not kept pace with innovation and needs to be elevated significantly. We felt that a very major and fundamental rethink of the understanding of risk management at the top of organizations, both at the suppliers side and the buy side, was needed and critical to improving the durability of our financial structures.

MR. FIDLER: *The final item was "strengthen infrastructure." Financial markets are moving so fast, driving innovation, that the structures of markets and the regulatory structures are sort of being dragged in their wake.*

MR. CALLAHAN: To support product innovation and existing market growth, it's important that we improve the fundamental infrastructure of the cash and derivatives markets.

The role that central counterparty clearing plays [in dealing with defaults] was mentioned by an earlier panel. It is a model that has been proven and tested and that should be exported. Not to every market, because introducing unsuitable or illiquid products into a central-clearing environment would spread systemic risk rather than contain it. But where it was appropriate, the group felt that central clearing was an important part of the solution. Certainly, trade repositories, so that we have some air-traffic-control system over new products and existing products to identify when concentrations build up, is something that was missing in the financial crisis. We need to do a much better job on that going forward. There was strong agreement on that. ▦

The Top Five Recommendations

1. OVERHAUL RATING AGENCIES
Restore investor confidence in rating agencies by eliminating conflicts of interest between agencies and issuers, returning to an "investor-pays" model, distinguishing between ratings of corporate debt and structured financial products and promoting new entrants to the credit-rating business.

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Boards should be required to demonstrate a full understanding of risks inherent in new products. Elevate risk managers to at least the same level as product makers and give them adequate representation at board level. Create globally recognized qualifications for risk managers, and implement standard certification through a risk "driving test."

5. STRENGTHEN INFRASTRUCTURE
Ensure financial infrastructure is commensurate with the innovation that it supports, both at the firm and the market level.

Volcker: Be Bold

The former Fed chairman says the conference proposals don't go nearly far enough to accomplish what needs to be accomplished

Mark Bourdillon for The Wall Street Journal

Does financial innovation contribute to economic growth?

That became a hot debate at the Future of Finance Initiative after former Federal Reserve Board Chairman Paul Volcker chastised the largely private-sector group for the timidity of its proposals, and said the ATM was the only financial innovation he can think of that has improved society.

What follows are edited excerpts of Mr. Volcker's discussion with The Wall Street Journal's Alan Murray.

ALAN MURRAY: *Mr. Volcker, you have heard the reports from all four of these groups and you have heard the priorities that they have agreed on. We would love to hear your responses.*

PAUL VOLCKER: Well, you are not going to be very happy with my response. I heard an awful lot of particulars here that I agree with to some degree, but my overall impression is that you have not come anywhere near close enough to responding with necessary vigor or structural changes to the crisis that we have had.

If it is really true that financial weaknesses brought us to the brink of a great depression that would have ended your livelihood and destroyed a lot of the global economy, then let me explain.

You concluded with financial-services executives showing cultural sensitivity and responsible leadership. Well, I have been around the financial markets for 60 years, and how many responsible financial leaders have we heard speaking against the huge compensation practices?

Every day I hear financial leaders saying that they are necessary and desirable, they are wonderful and they are God's work. Has there been one financial leader to stand out and say that maybe this is excessive and that maybe we should get together privately to think about some restraint?

I hear about these wonderful innovations in the financial markets, and they sure as hell need a lot of innovation. I can tell you of two—credit-default swaps and collateralized debt obligations—which took us right to the brink of disaster. Were they wonderful innovations that we want to create more of?

You want boards of directors to be informed about all of these innovative new products and to understand them, but I do not know what boards of directors you are talking about.

I have been on boards of directors, and the chance that they are going to understand these products that you are dishing out, or that you are going to want to explain it to them, quite frankly, is nil.

I mean: Wake up, gentlemen. I can only say that your response is inadequate. I wish that somebody would give me some shred of neutral evidence about the relationship between financial innovation recently and the growth of the economy, just one shred of information. I am getting a bit wound up here.

MR. MURRAY: *We are happy to have you. You are here to be wound up.*

Do Innovations Do Much Good?

MR. VOLCKER: A few years ago I happened to be at a conference of business people, not financial people, and I was making a presentation. The conference was being addressed by a very vigorous young investment banker from London who was explaining to all these older executives how their companies would be dust if they did not realize the joys of financial innovation and financial engineering, and that they had better get with it.

I was listening to this, and I found myself sitting next to one of the inventors of financial engineering. I didn't know him, but I knew who he was and that he had won a Nobel Prize, and I nudged him and asked what all the financial engineering does for the economy and what it does for productivity.

Much to my surprise, he leaned over and whispered in my ear that it does nothing—and this was from a leader in the world of financial engineering. I asked him what it did do, and he said that it moves around the rents in the financial system—and besides, it's a lot of intellectual fun.

Now, I have no doubts that it moves around the rents in the financial system, but not only this, as it seems to have vastly increased them.

How do I respond to a congressman who asks if the financial sector in the United States is so important that it generates 40% of all the profits in the country, 40%, after all of the bonuses and pay? Is it really a true reflection of the financial sector that it rose from 2½% of value added according to GNP numbers to 6½% in the last decade all of a sudden? Is that a reflection of all your financial innovation, or is it just a reflection of how much you pay? What about the effect of incentives on all our best young talent, particularly of a numerical kind, in the United States?

In Britain, I was just talking to a high-tech company about the immense attraction to go into finance when both Britain and the United States are suffering from a basic inability to produce things competitively, to keep up with the new economy. Is this a result of financial innovation that we should be really worried about?

Let us think about what structural changes are necessary to produce what is the heart of the problem, about too big to fail, moral hazard and the rest. As I say, I agree with many of your individual suggestions, but there were no suggestions in the area of moral hazard. It was suggested to improve regulation, and that may help, but having gone that far, it is better that you talk about some more serious structural changes.

I made a wiseacre remark that the most important financial innovation that I have seen the past 20 years is the automatic teller machine. That really helps people and prevents visits to the bank and is a real convenience.

How many other innovations can you tell me that have been as important to the individual as the automatic teller machine, which is in fact more of a mechanical innovation than a financial one?

How many other innovations can you tell me that have been as important to the individual as the automatic teller machine, which is in fact more of a mechanical innovation than a financial one?

A Banker Responds

MR. MURRAY: *The financial-innovation point is the one that you are making most strongly, and there was a statement that financial innovation is tied to economic growth, which Mr. Volcker is disputing. Eraj Shirvani [who is managing director of Credit Suisse in the investment-banking division], do you want to take that on?*

ERAJ SHIRVANI: It is never fun to take on Paul Volcker, but maybe I can ask a question for clarification.

So, is your hypothesis that corporate bonds, the securitization market—none of these financial innovations have done anything to help the economy? What shocks me about today is the number of people in this room who have all been architects of the economy as we have it today who have now decided that all of a sudden everything they have worked on over the past 30 years is all bad and the pendulum has swung too far.

I worry when we say that nothing good can come from innovation. Have there been excesses? Absolutely. Have there been inappropriate products? Absolutely. Are there investors who should be held accountable for buying things they didn't understand? Absolutely. However, that does not make it right to say that innovation in itself is a bad thing.

Innovate, but...

MR. VOLCKER: I am not sure that I said innovation in itself is a bad thing. I said that I have found very little evidence that vast amounts of innovation in financial markets in recent years have had a visible effect on the productivity of the economy. Maybe you can show me that I am wrong. All I know is that the economy was rising very nicely in the 1950s and 1960s without all of these innovations. Indeed, it was quite good in the 1980s without credit-default swaps and without securitization and without CDOs.

I do not know if something happened that suddenly made these innovations essential for growth. In fact, we had greater speed of growth and particularly did not put the whole economy at risk of collapse. That is the main concern that I think we all need to have.

If it is really true that the world economy was on the brink of a great depression that was greatly complicated by financial problems, then we have a rather basic problem that calls for our best thinking, and structural innovation if necessary. I do not want to stop you all from innovating, but do it within a structure that will not put the entire world economy at risk.

MR. SHIRVANI: I would suggest that some of the things that led to where we are today were not innovative products at all. It was funding long-term illiquid assets in short-term repo markets, which is very boring and old. It was the securitizations of mortgages and things that I think you would support, so I am not sure that innovations were at the center of what occurred.

But did they potentially hurt it a bit? In some cases, yes. I think we have to be very careful to make sure that we protect some of the bits that are good, and that in this process where we are trying to cleanse ourselves that we do not throw out the baby with the bath water.

Framework for the Future

MR. VOLCKER: Let me just suggest, if I may, the way that I would go about this. I am not alone in this, and in fact I think that I am probably going to win in the end.

First, let us agree that we have a problem with moral hazard. I do not think that there is any perfect answer in dealing with it, but I would suggest that we can approach an answer by recognizing that elements of finance have always been risky and that's certainly true of the commercial-banking system.

I think we need the commercial banking system for more than automatic teller machines. Commercial banks are still at the heart of the system. In a crisis, everybody runs back to the commercial banks. They, after all, run the payment system. We cannot have this global economy without commercial banks operating an efficient payment system globally as well as nationally. They provide a depository outlet for individuals and businesses, and they are still big credit providers for small and medium-size businesses, but they backstop most of the big borrowers as well.

The commercial-paper market is totally dependent on the commercial banking market. They are an essential financial institution that has historically been protected. It has been protected on one side and regulated on the other side.

I think that fundamental is going to remain. People are going to think it is important, it is important, it needs regulation and in extremis it needs protection—deposit insurance, lender of last resort and so forth. ▦

Too Big

Continued from page 15

loss than what we currently have.

MR. BROWN: *Number four looked at what banks needed to do to help their own unwinding; the idea that the banks need to present a plan to regulators that would also force them to think through their business in a smart way.*

Then the last point was a regulatory one; Mr. Profumo—who might have to write one of these "living wills" one day—will speak on it.

ALESSANDRO PROFUMO: What we think is very important is that the board and the management are being forced to think about how they can manage an eventual crisis situation. To have these living wills prepared within the company and to discuss it with regulators is quite important in terms of discipline for the company.

The final point is on the regulatory mandate, and our key words are "clear" and "strong." We want regulators with a very clear mandate on financial stability and not on consumer protection, because we think that, from time to time, the two things compete with each other.

Also, we need stronger regulation and supervisory activity. We think that it is important to have a stronger relationship with a supervisor who can be even more present in the company life.

The final part is quite important; in terms of leveling the playing field, we think this is one of the key issues to be solved.

Relieve the Pressure

EDWIN VAN DER OUDERAA [managing director of U.K. insurance at Accenture]: *I'd like to talk about better governance, and I would like your reaction to a certain point. I have spoken to several risk officers in the last year and a half who, in the period three or four years before the crisis, were in banks where, because of pressure from very activist shareholders, there were very large share buybacks and extraordinary dividends.*

My question is how can you ensure that the pressure is not going to be too high on these people?

MR. LAGRANGE: Whether it is the activist shareholder, a megalomaniac CEO or a rogue trader, you are going to have pressure from everywhere.

There has to be a better conduit from the risk management to be heard by the board. It can't be rigid, but it has to be that within the firm the risk management doesn't have to come two years later but is actually heard, live, and things are moved because of that. Having the board more involved is probably the best starting point. ▦

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IN DEPTH

Warren Buffett recounts how he looked 'into the abyss'

In year of investing dangerously, Berkshire chairman gives his most complete description of his epic deal negotiations

By Scott Patterson

WARREN BUFFETT believes his best deals during the economy's biggest belly flop since the Crash of 1929 may well turn out to be the ones he didn't do. Mr. Buffett slammed the door on one opportunity after another during the most harrowing stretch of his storied career. That impulse, he says, left him with the financial firepower he needed last month to strike the biggest deal he has ever done—Berkshire Hathaway Inc.'s $26.3 billion purchase of railroad Burlington Northern Santa Fe Corp.

In a series of interviews with The Wall Street Journal, Mr. Buffett gave his most complete account of his epic deal negotiations, including anxious phone calls he fielded from wounded companies such as Freddie Mac, Wachovia Corp. and Morgan Stanley.

"I bought my first stock in 1942, and this roller coaster surpassed anything that I've seen," says the 79-year-old investor. "We didn't do all the smartest things. We didn't do anything really dumb."

On March 28, 2008, Mr. Buffett, Berkshire's chairman, took a call from Richard Fuld, then head of Lehman Brothers Holdings Inc. Mr. Fuld wanted to know whether Mr. Buffett would inject about $4 billion into the investment bank to stanch losses.

That night, in his offices in Omaha, Neb., Mr. Buffett pored over Lehman's annual financial report. On the cover, he jotted down the numbers of pages where he found troubling information. When he was done, the cover was dotted with numbers. He didn't bite. Six months later, Lehman filed for bankruptcy protection.

"Everybody was looking for money in those days," Mr. Buffett recalls.

He didn't say no to everyone. He invested $5 billion in Goldman Sachs Group Inc. and $3 billion in General Electric Co. But for Berkshire shareholders, the bigger story may be the deals that he passed up.

"I don't think Buffett gets enough credit for all the pitches he doesn't swing at," says Paul Howard, an analyst at Janney Montgomery Scott. "And he gets a lot of pitches."

Some investors did strike big deals during the market turmoil, to their detriment. TPG, one of the world's largest private-equity firms, lost $1.35 billion on struggling thrift Washington Mutual Inc. In late 2007, investors in Abu Dhabi plowed billions into Citigroup Inc., whose shares plunged.

This account of Mr. Buffett's vetting of deals during the financial crisis was pieced together from interviews with him and representatives of some companies that approached him.

The requests for bailout financing began March 15, 2008, a Saturday. Mr. Buffett received a call at Berkshire's headquarters from New York private-equity investor J. Christopher Flowers. Mr. Flowers and a team of bankers were trying to arrange a last-minute buyout of Bear Stearns Cos., the struggling investment bank.

After listening to a pitch for about 10 minutes, Mr. Buffett said he wasn't interested. The next day, J.P. Morgan Chase & Co. struck its own deal to take over Bear.

Two weeks later, Mr. Buffett rebuffed the request from Lehman's Mr. Fuld. Mr. Fuld didn't respond to requests for comment.

As the housing market cratered, companies laden with securities backed by home mortgages were teetering. Later that spring, Morgan Stanley bankers representing Freddie Mac, the mortgage giant, reached out to Mr. Buffett for an investment. He thought Freddie Mac's troubles were too severe.

"I said no fast on that one," he recalls.

The U.S. Treasury Department took over Freddie and its sister lender, Fannie Mae, later that year. A spokesman for Freddie declined to comment on its request to Mr. Buffett.

Mr. Buffett remembers September 2008, when the financial crisis came to a head, as one of the most hectic months of his career. It started with a request from Robert Steel, then the chief executive of Wachovia, for an investment of as much as $10 billion. Mr. Buffett, who thought Wachovia had recklessly dived into subprime mortgages during the housing boom, turned him down.

Wachovia eventually was purchased in a fire sale by Wells Fargo & Co., in which Berkshire is a stockholder. A spokesman for Wachovia declined to comment.

Then, on Sept. 12, a Friday, Robert Willumstad, then the chief executive officer of troubled insurer American International Group Inc., called to ask Mr. Buffett for an investment of about $5 billion.

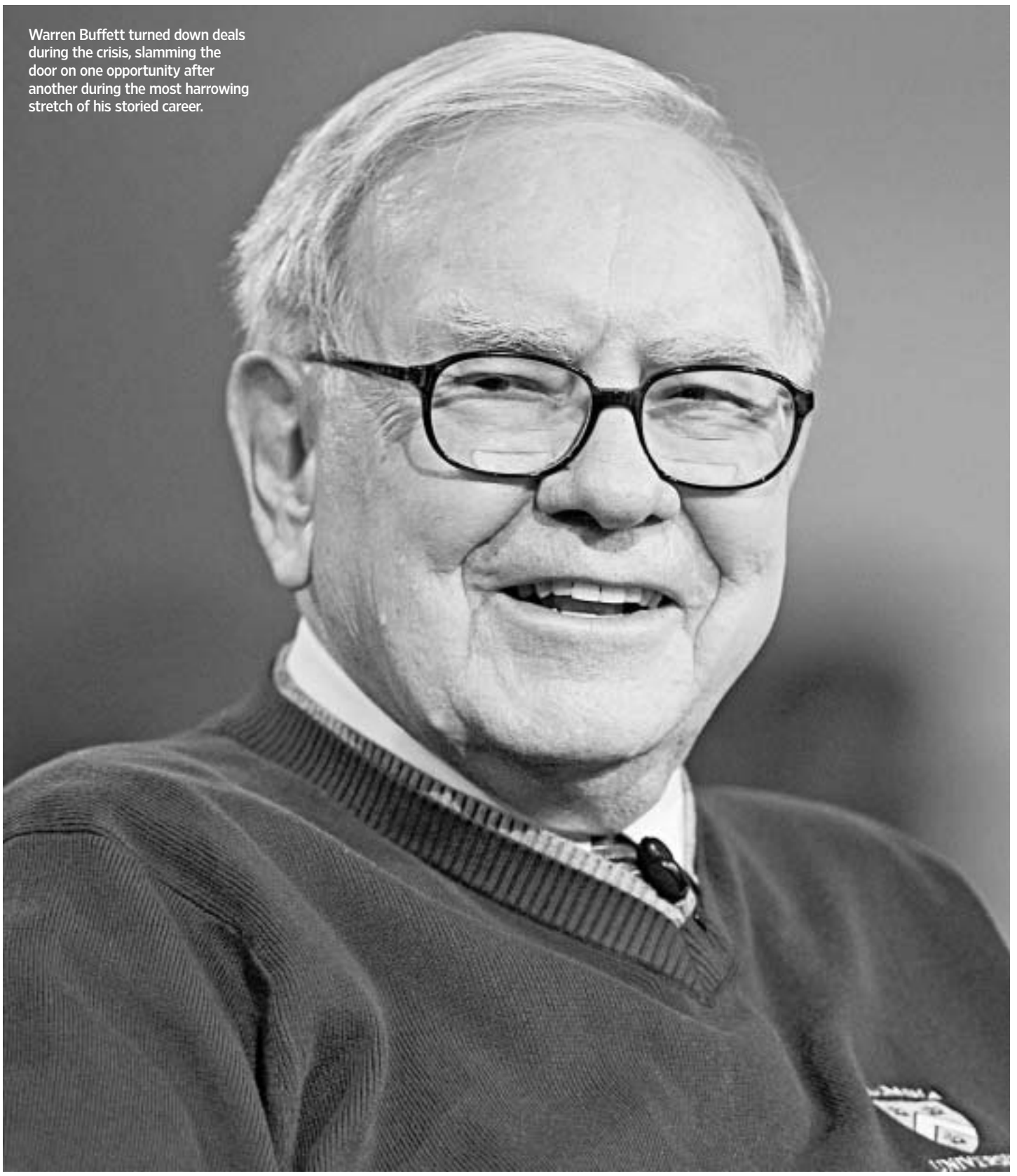
Mr. Buffett says he was aware AIG needed to raise capital quickly. "Don't waste your time on me," he recalls telling the AIG chief.

Mr. Willumstad says Mr. Buffett "basically said the company was too complicated."

Mr. Buffett did, however, agree to consider making an offer for some of AIG's property-and-casualty businesses. Later that evening, Mr. Willumstad called back. "How about the whole thing?" he recalls asking Mr. Buffett, referring to all of AIG's property-and-casualty businesses. He said the price was $25 billion.

Mr. Buffett said he would look over information about the deal. He swiftly concluded it was too big. Berkshire would have to borrow a lot of money, potentially threatening its coveted AAA credit rating.

The next day, Mr. Buffett flew to Edmonton, Canada, for a charity concert, headlined by Seal and Paul Anka, for families with children who need organ transplants. At about 6 p.m., he got a call at his hotel from Barclays PLC President Robert Diamond Jr. and an adviser, former Citigroup Inc. banker Michael Klein. The bankers were trying to broker a last-minute deal for Barclays to buy Lehman, which was facing bankruptcy.



Warren Buffett turned down deals during the crisis, slamming the door on one opportunity after another during the most harrowing stretch of his storied career.

Associated Press

IN DEPTH

U.K. regulators wouldn't approve such a large deal without shareholder approval, they told Mr. Buffett, which could take several days or even weeks. Regulators were worried that Lehman's trading partners would panic, refusing to do any more business with the bank. Would Mr. Buffett, for a fee, guarantee Lehman's trading positions until a shareholder vote?

Mr. Buffett needed to leave for the concert. He asked the bankers to send him a fax laying out deal terms. When he returned to his hotel around midnight, he didn't find any fax, so the deal went nowhere.

Mr. Klein had left a message on Mr. Buffett's cellphone. But Mr. Buffett says he doesn't use cellphones much, so he didn't even realize the message was there. He says he didn't get it until 10 months later, when his daughter, Susan Buffett, discovered it. He declines to discuss what Mr. Klein's message was, other than to say that receiving it that night wouldn't have led to a deal.

Messrs. Diamond and Klein didn't respond to requests for comment.

That same weekend, another AIG deal was in the works. Berkshire executive Ajit Jain, who runs its massive reinsurance unit, held discussions with an investment group led by Mr. Flowers and Kohlberg Kravis Roberts & Co., the New York private-equity giant. They were trying to line up a deal to provide reinsurance for some AIG operations, which would have eased some of the company's capital constraints.

Back in Omaha on Sunday, Mr. Buffett thought a deal was likely and left for a dinner at the Happy Hollow Club, a local country club, with Google Inc. co-founder Sergey Brin and Mr. Brin's wife. He expected to review the terms afterwards. But the deal fell through because AIG's financial troubles proved too severe and complex. Later that week, the U.S. government announced an $85 billion bailout.

By this point, Mr. Buffett was beginning to worry about the entire financial system. In phone conversations, the normally loquacious Mr. Buffett was less talkative and sounded nervous, according to one person who was speaking with him regularly at the time.

Shares of giant investment banks Morgan Stanley and Goldman Sachs were spiraling lower amid worries that they would be the next firms to fail. The commercial-paper market, which helps finance the day-to-day operations of businesses around the country, was seizing up. On Sept. 16, the Reserve Primary Fund, a big money-market fund, revealed huge losses, due in part to holdings of Lehman's commercial paper.

If the commercial-paper market had frozen completely, more major financial institutions and possibly even household names such as GE would have failed, Mr. Buffett says, "because their checks would have failed to clear." That would have triggered panic in U.S. money-market funds, which held about $3.5 trillion in assets, because some of them held commercial paper. The resulting chaos, Mr. Buffett concluded, could have crashed global financial markets, threatening Berkshire.

"I felt that this is something like I've never seen before, and the American public and Congress don't fully understand the gravity" of the problems, he recalls. "I thought, we are really looking into the abyss."

At a birthday party for a wealthy friend in Omaha, several guests asked Mr. Buffett if their money-market funds were safe. He found the questions worrisome: They suggested widespread fears about the safety of funds long perceived to be invulnerable to losses.

"When people who drive Rolls-Royces are worrying about their piggy banks, you know you've got a problem," he says.

On the morning of Sept. 19, Morgan Stanley Chief Executive John Mack phoned Mr. Buffett in hopes of arranging a deal, possibly a large credit line Morgan could tap. Exact terms weren't discussed. Mr. Buffett told Mr. Mack he wasn't interested because he wasn't familiar enough with the bank.

Mr. Buffett says he still felt the government had the tools to head off calamity. He stayed in close touch with government officials, fielding phone calls from then-Treasury Secretary Henry Paulson, who was cobbling together a bank-bailout package and was interested in Mr. Buffett's thoughts about structuring it. Senators seeking guidance about the package also phoned him.

As the government swung into action, Mr. Buffett recalls, he gained confidence that the crisis would be resolved. A government guarantee of assets in money-market funds, which came days after the Reserve fund's troubles emerged, was a big step forward, he says.

In late September, Mr. Buffett decided to strike.

Goldman Sachs, like Morgan Stanley, was in need of cash. The bank already had made several pitches to him. None had enticed him. But he remained open to offers, partly because he was familiar with Goldman's operations, having worked with the bank for many years on various deals.

On Sept. 23, Goldman banker Byron Trott, who had long worked closely with Mr. Buffett, called to ask what it would take to do a deal.

Mr. Buffett laid out his terms. Hours later a deal was struck. Berkshire purchased $5 billion of Goldman preferred shares with a 10% annual dividend, as well as warrants to buy $5 billion worth of Goldman shares for $115 apiece. The shares now trade at about $166.

The deal, Mr. Buffett says, was based partly on his faith that the government would stave off the kind of financial catastrophe that could have endangered even Goldman. Another factor: attractive terms for Berkshire.

Not long after that deal, Mr. Buffett agreed to buy $3 billion of General Electric preferred shares with a 10% annual dividend. He also got the right to buy $3 billion of common stock at $22.25. GE's shares rose 31 cents Friday to $15.92 on the New York Stock Exchange.

Having put $8 billion into those deals, Mr. Buffett went on a public-relations offensive, in what appeared to be an effort to bolster markets and urge the government to take strong action.

On public television's "The Charlie Rose Show," he called the market turmoil an "economic Pearl Harbor" and reiterated his faith in the nation's long-term strength. In a New York Times opinion piece, he wrote that he was buying U.S. stocks in his personal account.

On Oct. 6, he sent a letter to Treasury's Mr. Paulson laying out a plan for relieving the financial system from some of the pressure created by billions of dollars of toxic mortgage assets held by banks. He proposed pooling private assets, including Berkshire's, with Treasury funds to purchase mortgage securities from banks.

Mr. Paulson thought it was "the seed of a good idea," says one person familiar with the matter, but the Treasury was scrambling to put out brush fires and didn't have time to pursue it.

Continuing stock-market declines were taking a toll on Berkshire.

In February, the company reported that its book value per share—a measure of asset values it uses to gauge performance—had dropped 9.6% in 2008. That was the steepest decline since Mr. Buffett took over Berkshire in 1965. It suffered major losses on its stock holdings, including American Express Co. and Moody's Corp., and a big paper loss on derivative contracts it had written to insure customers against long-term declines in global stock indexes.

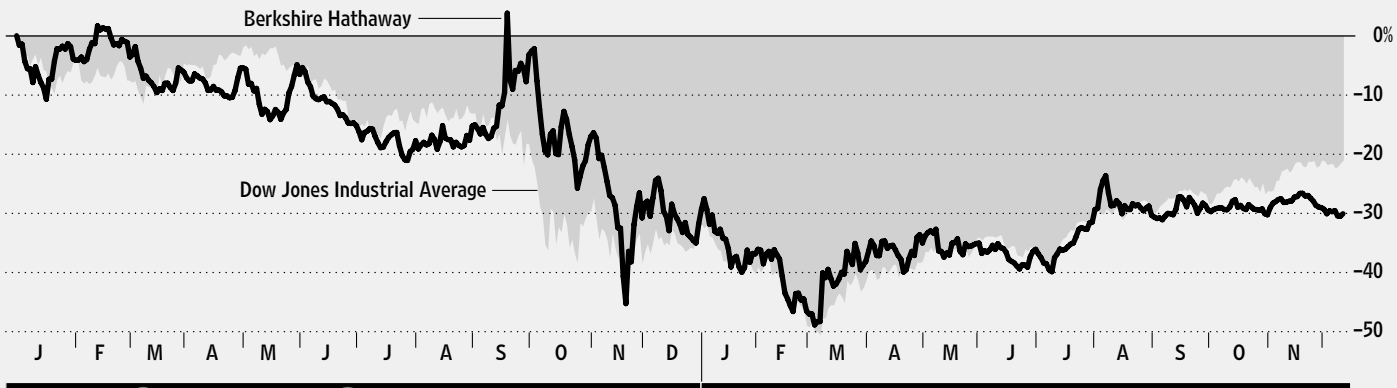
The toughest blow came in April, when Moody's stripped Berkshire of its AAA rating, citing the stock-market decline. The move has constrained Berkshire's vast insurance operations from writing some policies against major losses. Berkshire's stock also has suffered, down about 30% since mid-September 2008.

The Burlington railroad deal reduced Berkshire's earnings-growth potential, analysts say, since railroads tend to track overall economic growth. But it also trimmed Berkshire's exposure to risk-prone financial operations, potentially giving it a more solid foundation for when the next crisis hits.

Mr. Buffett has some regrets about his decisions during the financial crisis. He says if he'd waited to deploy his cash until March 2009, when the market hit bottom, he could have made a killing.

"I made plenty of mistakes," he says. "I didn't maximize the opportunities offered by the chaos. But in the end, it worked out OK."

Buffett's roller coaster | Warren Buffett navigated the financial crisis by rejecting numerous deals.



2008 — Declines deal — $ Buys in

- **March 15** Buffett turns down invitation from J.C. Flowers to invest in **Bear Stearns** buyout.
- **March 28** Asked by **Lehman Brothers** CEO Richard Fuld to invest about $4 billion, he declines.
- **Spring** Rejects request to invest in **Freddie Mac**.
- **September** Turns down request from **Wachovia** to invest up to $10 billion.
- **Sept. 12** Declines request from **American International Group** CEO Robert Willumstad for about $5 billion investment. Considers making offer for AIG's property-and-casualty assets.
- **Sept. 19 Morgan Stanley** CEO John Mack phones in hopes of arranging a deal.
- $ **Sept. 23** Agrees to invest $5 billion in **Goldman Sachs**.
- $ **Oct. 1** Agrees to invest $3 billion in **General Electric**.

2009

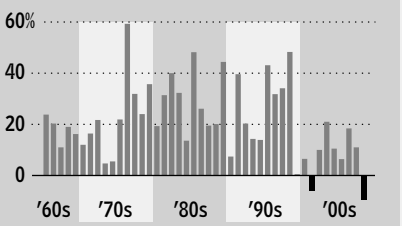
Feb. 28 Berkshire reports its book value per share dropped 9.6% in 2008. ▶

April 8 Moody's strips company of its coveted AAA rating.

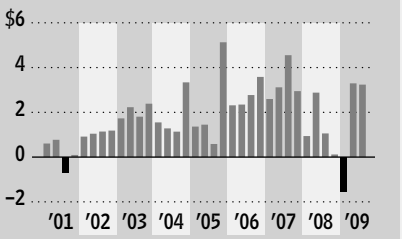
May 8 Berkshire posts $1.5 billion first-quarter loss, its first quarterly loss in years. ▶

$ **Nov. 3** Berkshire agrees to buy the 77% of railroad company **Burlington Northern Santa Fe** that it didn't already own for $26.3 billion.

Annual change in book value



Quarterly earnings, in billions



Sources: WSJ Market Data Group (stock prices); the company (earnings and book value)

Mr. Buffett rejected a request by Lehman head Richard Fuld for $4 billion.

Getty Images

WSJ.com

Online today: Watch an interview with WSJ's Scott Patterson about Warren Buffett's big bets—and the deals he declined—at **WSJ.com/Video**

FROM PAGE ONE

Beijing Auto will buy some Saab assets

Continued from first page
named by Ford Motor Co. in October as the preferred bidder for its Swedish unit, Volvo. And a Chinese machinery maker earlier this year struck a deal to buy GM's Hummer unit, although that deal still awaits government approval. Beijing Auto was a leading contender earlier this year to buy GM's Opel GmbH unit in Europe, before the U.S. company chose another suitor, and, later, canceled the sale.

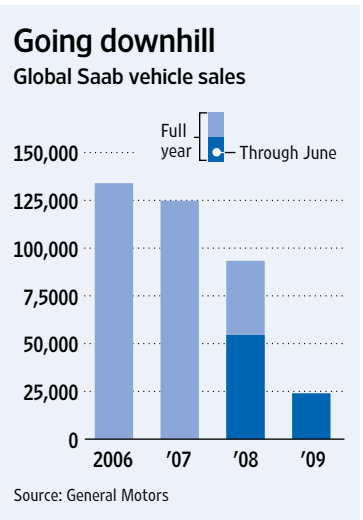
Selling Saab is a key element of GM's revitalization strategy, but the U.S. auto maker has struggled to seal a deal. Last month Swedish sports-car maker Koenigsegg Group AB unexpectedly dropped a separate bid for Saab. Beijing Auto had been putting the finishing touches on a deal to help Koenigsegg finance that acquisition, in exchange for which the Chinese company was supposed to secure access to Saab's technology and know-how.

Other potential investors in Saab since the Koenigsegg deal collapsed have included investor Ira Rennert's Renco Inc. and Wyoming-based Merbanco LLC, founded by merchant banker Christopher Johnston. GM's bankers informed Merbanco about two weeks ago that it was not invited to participate in further talks about Saab.

"We are negotiating on various aspects of Saab and will announce when there is any further development," a GM spokesman said Sunday in an email. He declined further comment "at this time."

The new deal between Beijing Auto and GM was put together over the course of about two weeks after Koenigsegg pulled out, the person with knowledge of the agreement said.

The person suggested an additional agreement may still be squeezed out of the continuing discussions, which are taking place near Saab's production hub in Trollhattan, Sweden. The person said Beijing Auto President Wang Dazong is there leading the team from Beijing and is "still exploring ways to reach further deals for cooperation." The person declined to elaborate.



One element of this weekend's deal that couldn't be learned is whether it will allow Beijing Auto to use the Saab name in China or elsewhere. It wasn't immediately clear whether Mr. Wang in the talks is trying to acquire a right to use the Saab name, or the rest of Saab's assets.

Some reports have said the partial sale of Saab technology and other assets could lead to the end of Saab, with its other assets, including its headquarters, liquidated. That outcome, the reports have said, could threaten at least 3,000 Saab jobs in Sweden.

Beijing Auto was China's first auto maker to team up with a foreign counterpart, when it partnered 25 years ago with then-American Motors Corp. to produce and sell Jeeps in China. But it has failed to develop a strong brand of its own, even as rivals such as Shanghai Automotive Industry Corp. have roared ahead.

Beijing Auto's main businesses now are joint ventures with Hyundai Motor Co. and Daimler AG's Mercedes-Benz unit, as well as a heavy-truck producer called Foton. Beijing Auto's own brand is a minor competitor in China's domestic market, with only a small lineup of aging sport-utility vehicles.

Mr. Wang, in an earlier interview with The Wall Street Journal, has said that developing a strong brand would require foreign technology and know-how, which is best achieved by buying into a troubled overseas auto maker. He cited Shanghai Auto's development of its Roewe brand using technology from MG Rover.

Open-skies pact presses JAL toward alliance

Continued from first page
carriers. The U.S. and Japan said they expect open skies to be fully approved by October 2010.

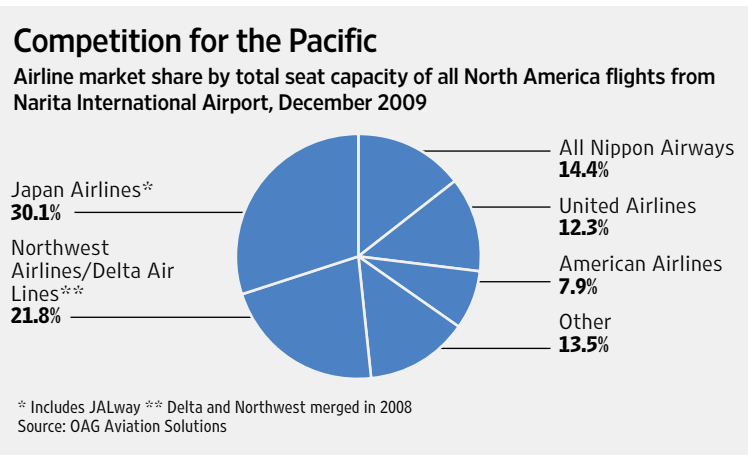
Immunity applications can take six months or more to process, and ANA's imminent application with United forces JAL to choose between the competing Delta and American offers so it isn't left behind by its rival.

Open-skies negotiations between the U.S. and Japan have plodded along for nearly a decade without any resolution. The catalyst that drove the conclusion of last week's talks is the imminent opening of Haneda Airport, Tokyo's main domestic airport, to international scheduled flights from October 2010. Haneda will increase its capacity by 40% and Narita International Airport will also add new slots, representing the first time in decades that either airport—which are both operating at full capacity—have been able to offer lucrative new services for carriers.

To cement the deal, Japan agreed to open up more flights to U.S. carriers at Narita, the country's main airport for cross-border flights, allowing them 10% of the new slots there when it expands next year. But U.S. airlines will have a minuscule presence at Haneda, where they have been awarded just four operations a day, or eight landing slots, between the hours of 10 p.m. and 7 a.m.—when Narita closes down. To make matters worse, departures from Haneda to the U.S., excluding Alaska and Hawaii, aren't allowed before midnight for all carriers.

U.S. carriers had argued that the slots were too few and not commercially meaningful, and Delta and dozens of U.S. lawmakers urged American negotiators to take a hard line to ensure more slots, according to people familiar with the matter, resulting in the compromise at Narita.

Both American Airlines and Delta are enmeshed in negotiations with JAL, but the decision regarding a future partner is widely seen as a government-led decision. A state-backed turnaround body is leading the restructuring of JAL, which is burdened by more than one trillion yen ($11.3 billion) in net debt and pension obligations. Richard Anderson, Delta's CEO, met with Japanese transport minister Seiji Maehara last week to explain its proposal in more detail.


Competition for the Pacific
Airline market share by total seat capacity of all North America flights from Narita International Airport, December 2009
Japan Airlines* 30.1%
Northwest Airlines/Delta Air Lines** 21.8%
All Nippon Airways 14.4%
United Airlines 12.3%
American Airlines 7.9%
Other 13.5%
* Includes JALway ** Delta and Northwest merged in 2008
Source: OAG Aviation Solutions

"JAL intends to apply for [antitrust immunity] with a strategic U.S. partner as soon as possible, so as to seize this opportunity to strengthen our network and bring added benefits to our valued customers," said the company in a statement on Saturday.

The mud-slinging between American and Delta over their attempts to corral JAL continued, with American accusing Delta on Friday of "last-minute efforts" to "derail" the open-skies talks. American also has argued a Delta-JAL partnership would be anticompetitive, as the alliance would command a 60% market share of all flights between the U.S. and Japan.

Delta, which could see its leading market share in Japan among U.S. carriers slip amid greater competition, said in a statement late Friday that it "has long supported open skies." The Atlanta-based carrier, the world's largest, added that it is "confident" U.S. authorities would grant it antitrust authority to partner with JAL.

The U.S. already has clinched open-skies treaties with more than 90 countries, including an accord with the European Community in 2007. Such pacts are aimed at boosting competition and lowering fares for consumers by capping government interference in airlines' decisions about routes, capacity and pricing.

The deal with Japan would replace a restrictive bilateral treaty stretching back to 1952. Under that post-World War II accord, Delta and United enjoy privileged positions on routes between Japan and North America among U.S. carriers, controlling 22% and 12% of passenger seats at Narita International airport, respectively, according to data provider OAG. American currently has an 8% market share.

At the same time, U.S. antitrust authorities could delay any beefed-up alliances between U.S. and Japanese carriers amid increasing scrutiny of such deals because of competition concerns.

Thai authorities probe North Korean weapons shipment

Continued from first page
Its cargo—which was later transferred to a Thai military base—included rocket-propelled grenades, components for surface-to-air missiles, and explosives, according to the Associated Press, which cited Thai officials. There were no immediate indications that it included materials or equipment related to the manufacture of nuclear weapons, but Thai authorities said it could take several more days to fully examine the plane's contents.

The crew, including four citizens of Kazakhstan and one from Belarus, were charged with illegal possession of arms in Thailand. A police spokesman said the men didn't yet have lawyers and that they had denied any knowledge there were weapons on board. They were expected to appear before a Thai judge on Monday.

North Korea is one of the world's most impoverished countries and relies on arms shipments for a sizable portion of its foreign income. Some analysts estimate it reaps several hundred million dollars annually from arms trading.

European Pressphoto Agency

One of the plane's five crew members, Capt. Ilyas Issakov, is escorted by policemen in Bangkok Saturday after officials impounded the plane and its cargo of weapons.

The country, which is run by an authoritarian regime that grants its citizens few freedoms, has been trying to build nuclear weapons since the 1970s. Other nations, led by the U.S., have tried since the early 1990s to persuade it to give up its pursuit of nuclear weapons by offering food and money.

North Korea has continued the nuclear program, however, and has prolonged diplomatic interactions over it in a strategy that has allowed the regime to remain in power and wield influence in the world's weapons scene that is outsize in comparison with its economic strength.

The latest action in that long-running diplomatic saga occurred last week when the man appointed this year by U.S. President Barack Obama as American envoy to North Korea, Stephen Bosworth, visited Pyongyang for the first time. North Korea had sought a visit from Mr. Bosworth for several months before considering a return to the six-nation, aid-for-disarmament talks. Following the visit, both the U.S. and North Korea called it useful, but Pyongyang gave no clue when it might return to the multilateral talks or what its next step might be.

In an early test of the new U.N. rules to slow North Korean arms sales, the U.S. Navy in late June and early July tracked a North Korean vessel suspected of carrying weapons to Myanmar. But the vessel turned back to North Korea while it was in the Sea of China, before it needed to reach any refueling port where it could be boarded.

In July, inspectors in the United Arab Emirates detained a ship with North Korean arms that left North Korea just five days after its May 25 nuclear test. A U.N. Security Council official said at the time that a U.N. sanctions committee would conduct an investigation of the cargo, which also included detonators and ammunition for rocket-propelled grenade launchers.

Attempts to reach North Korean officials in Bangkok were unsuccessful. An employee of the Sri Lanka embassy in Bangkok said she had no knowledge of the flight or reports that it might be headed to her country next.

As of 4 p.m. ET **Euro** 1.4620 ▼ 0.67% **Yen/US$** ¥89.59 ▲ 1.43% **Yen/A$** ¥81.66 ▲ 0.88% **Oil** 69.87 ▼ 0.95% **Gold** 1119.40 ▼ 0.56% **10-year Treasury** ▼ 16/32 yield 3.540% **3-month Libor** 0.25363

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BUSINESS & FINANCE.

Monday, December 14, 2009 THE WALL STREET JOURNAL. asia.WSJ.com

Korean deals leave bankers with scraps

By Nisha Gopalan

In recent months, South Korea has been a hotbed of deal activity, but bankers shouldn't get too excited. It is no exaggeration to say that Korea's M&A market at the moment is dominated by the sale of hard-to-handle government stakes in private companies.

Take, for instance, companies such as the world's second-largest shipbuilder by sales, **Daewoo Shipbuilding & Marine Engineering** Co., and the world's second-largest memory-chip maker, **Hynix Semiconductor** Inc. Government arms are looking to shed shares in both.

Advisers have their work cut out as the pool of buyers is limited for some of these assets. The government is unlikely to allow its giant shipbuilder or chip maker to fall into foreign hands, according to bankers. In fact, leading creditor **Korea Exchange Bank** has said only South Korean companies will be accepted when it takes fresh bids for Hynix after a recent attempt to sell the chip-maker collapsed.

Korea has surprised the dealmaking world, vaulting to the third-most-active Asian M&A market this year after China and Japan, according to Dealogic. (It ranked fourth last year as India took third spot). Earlier this year, Kohlberg Kravis Roberts & Co. bought South Korea's

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Investors bet on inflation

After buying gold and inflation-protected bonds, managers look at stocks, high-yield debt

By Tom Lauricella

Even as signs of deflation linger, some investors are moving to protect themselves against any surge in inflation.

They fear the Federal Reserve will move too slowly to reverse the unprecedented flood of cash it pumped into the financial markets in response to the global financial crisis. With the crisis now seen as over, they feel the Fed could be setting the stage for a meaningful rise in inflation over the next several years by pledging to keep interest rates essentially at zero for the foreseeable future.

To defend—and profit—from a big rise in inflation, investors have piled into gold or inflation-protected bonds. In November, investors put $2 billion into inflation-protected mutual funds and exchange-traded funds, according to Morningstar Inc. Another $3.9 billion into went into commodity funds and commodity exchange-traded funds, primarily gold funds. So far this year, those categories of funds have raked in $59 billion. In contrast, investors have pulled $52 billion from U.S. stock funds and U.S. stock-focused ETFs.

But the moves go beyond just building up stakes in those traditional inflation hedges. Some investors and strategists are factoring a resurgence of inflation into their stock picking and favoring material stocks or companies with strong pricing power and even some bond holdings, such as high-yield debt.

"I'm very skeptical that the Fed is going to be able to sop up the liquidity in a timely period," says John Longo, chairman of the investment committee at MDE Group in Morristown, N.J., and a finance professor at Rutgers University. Managers at his firm have added funds with sizable allocations to gold and commodities and reduced bond holdings in their model portfolio to 10% from 30% a year ago.

When it comes to stocks, "in general inflation isn't good for stocks, but you want to have companies that have the pricing power to be able to adapt," says Mr. Longo. He cites **Coca Cola**, as one example, and pointed to news last week that **FedEx** raised shipping charges, following a similar move by **United Parcel Service**.

For now, inflation appears still a ways off and deflation remains the reality. Few companies are in a position to raise prices and in October, the consumer-price index was down 0.2% from a year earlier. The November reading is due Wednesday.

Fed Chairman Ben Bernanke predicted last week that inflation would be "subdued for some time" and that in the near term, inflation could fall further. Against that backdrop, interest rates could stay low "for an extended period," he said.

Some believe that there is little chance of a meaningful pickup in inflation, even a couple of years down the road. The argument is that unemployment will remain high even as the broad economy recovers. When coupled with unused capacity in the manufacturing sector, that slack should allow the economy to grow without upward pressure on prices.

While gold prices have been rising, often a sign of rising inflation expectations, another more direct barometer of inflation expectations so far reflect a sanguine outlook.

Based on prices of U.S. Treasury Inflation-Protected Securities, where interest payments are adjusted for changes in the CPI, inflation is expected to be less than 1% in 2010, notes Michael Pond, Treasurys and inflation market strategist at Barclays Capital.

Looking further out, TIPS prices suggest inflation is expected to be 1.5% per year over the next five years and roughly 2.1% over the next 10 years, according to Barclays.

Those expected inflation rates have moved higher from earlier in the year, but "the market is not at

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Goldman fueled AIG costly mortgage bets

By Serena Ng
And Carrick Mollenkamp

Goldman Sachs Group Inc. played a bigger role than has been publicly disclosed in fueling the mortgage bets that nearly felled **American Insurance Group** Inc.

Goldman was one of 16 banks paid off when the U.S. government last year spent billions closing out soured trades that AIG made with the financial firms.

A Wall Street Journal analysis of AIG's trades, which were on pools of mortgage debt, shows that Goldman was a key player in many of them, even the ones involving other banks.

Goldman originated or bought protection from AIG on about $33 billion of the $80 billion of U.S. mortgage assets that AIG insured during the housing boom. That is roughly twice as much as **Société Générale** and Merrill Lynch, the banks with the biggest exposure to AIG after Goldman, according an analysis of ratings-firm reports and an internal AIG document that details several financial firms' roles in the transactions.

In Goldman's biggest deal, it acted as a middleman between AIG and banks, taking on the risk of as much as $14 billion of mortgage-related investments. Then Goldman insured that risk with one trading partner—AIG, according to the Journal's analysis and people familiar with the trades.

The trades yielded Goldman less than $50 million in profits, which were mostly booked from 2004 to 2006, according to a person familiar with the matter. But they piled risks onto AIG's books, which later came to haunt the insurer and Goldman. The trades also gave Goldman a unique window into AIG's exposure to losses on securities linked to mortgages.

When the federal government bailed out the insurer, Goldman avoided losses on its trades with AIG covering a total of $22 billion in assets.

A Goldman spokesman says that up until AIG was rescued by the government, the insurer "was viewed as one of the most sophisticated financial counterparties in the world. It wasn't until the government intervened in September 2008 that the full extent of AIG's problems became apparent."

"What is lost in the discussion is that AIG assumed billions of dollars in risk it was unable to manage," the Goldman spokesman added.

An AIG spokesman declined to comment on the firm's trades with Goldman.

More clarity has emerged recently over the roles that firms such as Goldman played, as complex deals carried out by banks are now

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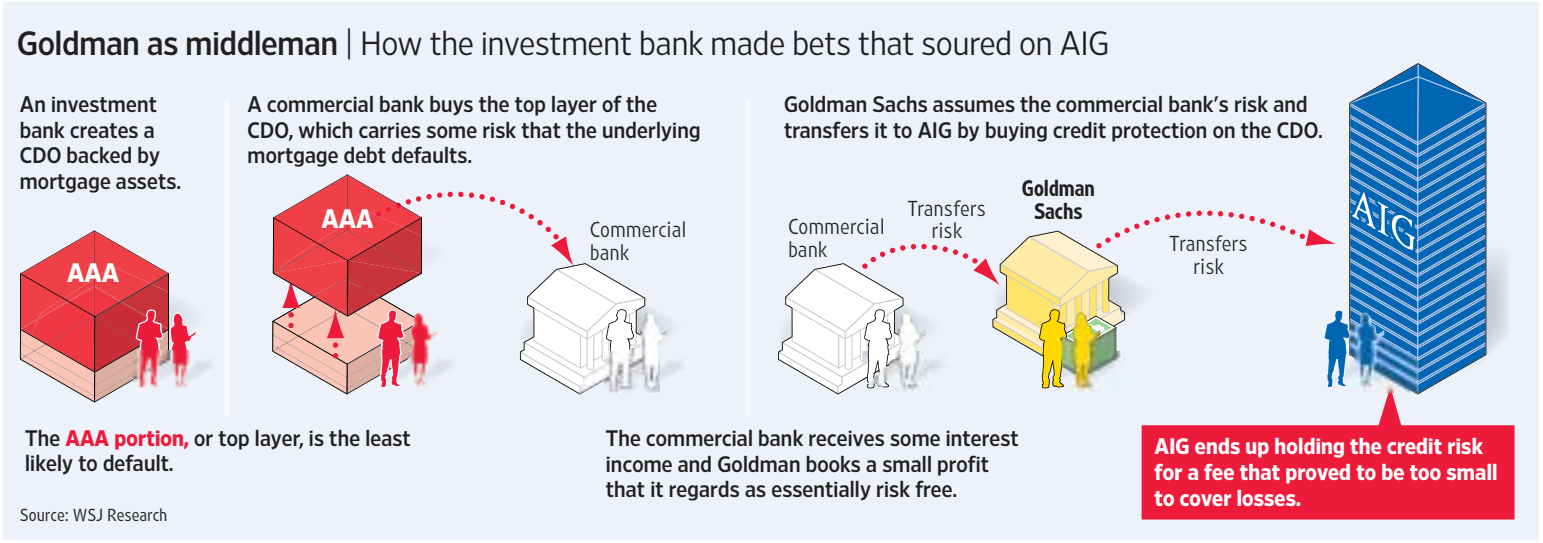
Goldman as middleman | How the investment bank made bets that soured on AIG
An investment bank creates a CDO backed by mortgage assets.
AAA
A commercial bank buys the top layer of the CDO, which carries some risk that the underlying mortgage debt defaults.
AAA
Commercial bank
Goldman Sachs assumes the commercial bank's risk and transfers it to AIG by buying credit protection on the CDO.
Commercial bank
Transfers risk
Goldman Sachs
Transfers risk
AIG
The AAA portion, or top layer, is the least likely to default.
The commercial bank receives some interest income and Goldman books a small profit that it regards as essentially risk free.
AIG ends up holding the credit risk for a fee that proved to be too small to cover losses.
Source: WSJ Research

BUSINESS & FINANCE

Baghdad hails oil auction as success

Shell, Lukoil, other foreign companies pledge to vastly increase nation's output despite legal, technical issues

By Hassan Hafidh And Chip Cummins

BAGHDAD—Iraq awarded some of its most promising fields to a variety of foreign bidders in an auction Friday and Saturday that Iraqi officials presented as an endorsement of the nation's revitalization.

Companies that won fields over the weekend—including **Royal Dutch Shell** PLC and Russia's OAO **Lukoil**—and those winning deals earlier have pledged to more than quadruple the country's oil output.

Iraqi officials hailed the weekend auction as the clearest sign yet that Baghdad is on its way to rebuilding its vast but hobbled oil industry, and more broadly, reasserting its regional economic power. The auctions lend "more credence that Iraq is coming back, and Iraq is strong" again, Hoshyar Zebari, Iraq's foreign minister, said in an interview.

Big challenges still loom, however, including winning final government approval for the deals. Iraq has scheduled parliamentary elections for March, and some Iraqi officials and oil executives worry that a new government could reconsider.

But the current government of Prime Minister Nouri al-Maliki has strongly backed the country's two auctions so far. Iraq in June held its first oil auction, offering foreign companies the chance to boost production at already-pumping fields. This weekend's auction was the first time foreign firms could bid on more-attractive untapped fields. Of the 10 groups of fields available, seven were awarded.

Associated Press

Above, work was under way at the Rumaila oil refinery, southeast of Baghdad on Sunday.

If the companies that won fields over the weekend live up to their production pledges, they would increase the country's oil production to 4.765 million barrels a day, Oil Minister Hussain al-Shahristani said. Current production is around 2.5 million barrels a day.

"It is a very successful bid round," Mr. Shahristani said. Including pledges from companies who won field-development contracts in previous months for already producing fields, international consortia have committed to boosting Iraqi production capacity to 12 million barrels a day, Mr. Shahristani said. That would rival the output of Saudi Arabia, the world's largest oil exporter.

Reflecting Iraq's optimism, Mr. Shahristani said Saturday that Iraq eventually would accept a production quota from the Organization of Petroleum Exporting Countries.

By many estimates, Iraq, which is an OPEC member, sits on the world's third-largest reserves of oil, behind Saudi Arabia and Iran. But Iraq's oil industry has struggled for years because of United Nations sanctions, war and underinvestment. As a result, Iraq long has been exempt from the output quota that other OPEC members adhere to in an effort to manage global prices.

Production growth in Iraq won't be easy.

Legal hurdles remain. The oil ministry and Mr. Maliki's government designed the current contracts—essentially service contracts that pay a per-barrel fee to oil companies in exchange for production increases—without parliamentary approval.

A petroleum law setting out the legal framework for foreign oil development has been marooned in Parliament, and a new government next year could object to the current contracts.

Technical worries also persist. Fields, especially untapped ones, often prove more technically challenging than expected or result in fewer reserves than anticipated.

For currently producing fields, decades of overproduction under Saddam Hussein may have caused irreparable reservoir damage, oil analysts warn. Contrary to expectations, U.S. firms bowed out of the most recent bidding.

Still, interest from foreign firms was high. Executives from more than 30 international oil companies came to Baghdad to bid for the oil fields despite the nation's volatility. A series of coordinated bombings in Baghdad last Tuesday killed more than 100 people.

A consortium led by Shell and Malaysia's **Petroliam Nasional** Bhd. on Friday won the giant Majnoon field, which could hold about 12 billion barrels of reserves. The consortium proposed receiving $1.39 a barrel and pledged to increase output to 1.8 million barrels a day.

Lukoil along with **Statoil** ASA secured a deal Saturday to develop another big field, West Qurna Phase 2. They proposed a fee of $1.15 a barrel and a production plateau of 1.8 million barrels a day.

Initial agreements are to be worked out in two weeks and then sent to the cabinet for approval. Mr. Shahristani said he expects the contracts to be signed early next year.

Chinese oil companies lose out on deal in Angola

A Wall Street Journal Roundup

Marathon Oil Corp. said Friday that Angolan national oil company **Sonangol Holding** agreed to purchase a 20% stake in Block 32 for $1.3 billion.

The transaction cemented Sonangol's decision to block the sale of the Angolan oil-field stake to **China National Offshore Oil** Corp. and **China Petrochemical** Corp.

The Chinese companies in July agreed to jointly buy the stake from the Houston-based Marathon for $1.3 billion. But Sonangol in September said it would exercise its right of first refusal.

Separately, **BP** PLC announced that it sold its interest in Kazakhstan's Tengiz oil field and the Caspian Pipeline Consortium between Kazakhstan and Russia, selling its 46% stake in the Lukarco venture to Russia's OAO Lukoil for $1.6 billion.

Meanwhile, shareholders in Dublin-listed oil company **Dragon Oil** PLC rejected a takeover offer from Dubai-based **Emirates National Oil** Co.. Several shareholders said the offer undervalued Dragon Oil.

Emirates National owns 51.5% of Dragon Oil and its offer for the remaining Dragon shares valued the company at around $2.4 billion.

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Corrections & Amplifications

Bobby Helms's version of the song "Jingle Bell Rock" came out in 1957. A Weekend Journal article in the Friday-Sunday issue on Christmas albums incorrectly spelled his last name Helm.

McDonald's Corp.'s U.S. same-store sales fell 0.6% in November after a 0.1% decline in October. A Corporate News article Wednesday failed to specify that November's drop was for same-store sales and that the 0.1% fall was in October.

Cost control

The Pentagon uses a variety of contracting methods to rein-in expenses.

Contract type	Key criteria
Firm Fixed Price	Government pays a set price, whatever the contractor's cost.
Fixed Price Incentive	Government sets a maximum price, targeting contractor's cost and profit.
Cost-Plus Award Fee	Quality, cost-management and timeliness are benchmarked by government.
Cost-Plus Incentive Fee	Contractor's profit can rise if costs are kept down.

Source: U.S. Department of Defence

Defense contractors resist fixed prices

By Daniel Michaels And August Cole

The Airbus A400M military transporter finally flew for the first time on Friday, but the delayed European airplane is still weighed down by an issue burdening defense projects on both sides of the Atlantic: an inflexible contract.

The flying truck is being developed under a type of fixed-price deal that the U.S. and the U.K.—two of the world's biggest arms buyers—largely abandoned years ago because of repeated cost overruns.

But the U.S. Defense Department is again considering imposing such terms in an effort to trim its bills. Military contractors are grumbling, and some analysts say the A400M shows what can go wrong.

"Everybody thought we learned our lessons," said Jacques Gansler, who was the Pentagon's top weapons buyer from 1997 to 2001. Mr. Gansler calls the A400M "a good example of the problem" posed by fixed-price contracts.

When seven countries from the North Atlantic Treaty Organization ordered the four-engine A400M from Airbus in 2003, its parent company, **European Aeronautic Defence & Space** Co., agreed to build 180 of them for €20 billion ($29 billion). EADS promised to swallow any cost overruns.

The project has since blown its budget by several billion euros and EADS wants the seven governments to share the burden that it had promised to shoulder. EADS officials say that would be fair because the extra expense comes partly from changes in contract terms and designs forced on it by the governments. The governments, whose individual positions vary, say they want to reach an agreement with EADS. The two sides are locked in heated negotiations and hope to strike a deal before year-end that keeps the project alive.

"The aircraft is much more complex and expensive than expected," Domingo Urena-Raso, chief executive of Airbus' military division, said in a recent interview. "Industry cannot bear the full burden of the project alone."

The complaint reminds some industry veterans of spats in the U.S. before the Pentagon in the 1990s shifted away from fixed-price contracts toward deals that share risk. The U.S. changed its approach because military programs take decades to complete. Their requirements and technology evolve during development, which increases costs.

A more common approach now, known as cost-plus, pays a supplier's expenses and guarantees a fixed profit margin. Critics of cost-plus deals say they don't adequately encourage contractors to control outlays.

Opponents of fixed-price contracting, meanwhile, say the rigid approach also fails to control costs and instead produces expensive legal battles. The Pentagon's last big fixed-price contract, for the A-12 Avenger II airplane, is still being fought out in court, 19 years after its cancellation.

Airbus officials were aware of these risks when they signed the A400M contract. At that time, British defense giant **BAE Systems** PLC owned 20% of Airbus alongside EADS, and BAE was fighting with the British Defense Ministry over fixed-price contracts for a surveillance plane and a submarine. BAE's then-Chief Executive Mike Turner sat on the board of Airbus.

"We would have preferred it was not a fixed-price contract," Mr. Turner said of the A400M deal before he retired from BAE last year. BAE sold it stake in Airbus to EADS in 2006.

Airbus officials in 2003 said they could handle the A400M contract using their experience competing with **Boeing** Co. in the commercial jetliner market. But four years later, EADS Chief Financial Officer Hans Peter Ring said "the logic was wrong" behind that thinking.

Now the Obama administration wants to use fixed-price deals as a tool permanently to shake up defense contracting and cut its cost of military systems. In August, the Pentagon awarded an Army truck contract worth billions of dollars to **Oshkosh** Corp. on a fixed-price basis. BAE, whose subsidiary had held the contract for 17 years, and another bidder, **Navistar International** Corp., lodged protests with Government Accountability Office to challenge the Army's pick. Oshkosh's lower pricing is an issue with the losing companies.

The biggest test of Washington's new approach is a $40 billion tender to buy 179 aerial refueling jets, which the Pentagon wants to handle on a fixed-price basis.

When the Air Force issued a draft request for proposals in September, Deputy Defense Secretary Bill Lynn said the approach would "constrain prices considerably" and indicated a broader change in Pentagon policy.

"It's shifting the department from a cost-plus world more towards a fixed-price world, and we think that that's going to be an important element in avoiding cost overruns," said Mr. Lynn.

Executives at **Northrop Grumman** Corp. and Boeing—the only potential bidders for the tanker order—are balking at setting prices for a contract that will last almost two decades.

Google testing own phone

Web giant plans to sell device directly to consumers without a carrier

By Jessica E. Vascellaro

Google Inc. has designed a cellphone it plans to sell directly to consumers as soon as next year, according to people familiar with the matter.

The phone is called the Nexus One and is being manufactured for Google by **HTC** Corp., these people said. It runs Android, the operating system for mobile phones that Google developed, they added.

But unlike the more than half-dozen Android phones made by phone manufacturers today, Google designed virtually the entire software experience behind the phone, from the applications that run on it to the look and feel of each screen.

The Internet giant is taking a new, and potentially risky, approach to selling the device. Rather than selling the phone through a wireless carrier—the way the bulk of phones are sold in the U.S. today—Google plans to sell the Nexus One itself online. Users will have to buy cellular service for the device separately.

Google began sharing a version of the Nexus One with employees in recent days, according to people familiar with the matter.

In a blog post Saturday, Google wrote it was sharing a new device running its Android operating system with employees to "experiment with new mobile features and capabilities."

Agence France-Presse

Google has begun sharing a version of the Nexus One phone with employees.

The phone is a significant escalation of Google's assault on the mobile industry, challenging both wireless carriers that sell devices as well as companies that design them.

Google became a high-profile player in mobile two years ago, when it launched Android. Google designed the software to seed its mobile applications, such as Gmail and Google Maps, and increase usage of the Internet from phones to grow its online advertising business. A number of leading handset manufacturers, including HTC and **Motorola** Inc., built phones running the software, some of which contain branding "powered by Google."

But the phones—many of which just hit the market in recent months—haven't sold nearly as well as **Apple** Inc.'s iPhone, which is capturing more interest from software developers.

Now, Google appears to want to throw its brand behind a device more directly, designing a phone without working with the wireless carriers that often dictate what features they allow on their networks.

The move could alienate wireless carriers and handset makers that offer Android phones and don't want to compete with Google. Google has repeatedly said its goal is to have hundreds of Android phones rather than one.

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INSURANCE
IN IRAQ.

Apple countersues Nokia over patents

By John Kell

Apple Inc. is countersuing **Nokia** Corp., defending its cellphone technologies and claiming Nokia is infringing on 13 of its patents.

"Other companies must compete with us by inventing their own technologies, not just by stealing ours," Apple General Counsel Bruce Sewell said in prepared remarks Friday.

The maker of computers and electronic devices, including the iPhone, was responding to a lawsuit filed by Nokia in October. Finland-based Nokia alleged the iPhone infringes on 10 patents that cover technologies it said are essential for connecting cellphones to the most widely used wireless networks.

According to Apple's counterclaim, Nokia sought to gain an unjust competitive advantage over Apple by charging technology licensing fees well in excess of standard industry practice. Apple also alleges several Nokia models are using patents awarded to Apple for, among other things, methods that help computers recognize attached cellphones and that abstract colors from graphics.

While Nokia was an early developer of traditional voice-call-focused mobile phones, Apple contends technology advances, including many that it pioneered, have resulted in the convergence of technology that has led to smart phones—which can send and receive e-mails, surf the Internet and run software applications.

RUBBER
IN TOKYO.

CORPORATE NEWS

Woods helps out backers

Hiatus lets sponsors distance themselves from scandal-tarred golfer

By Emily Steel

The decision by Tiger Woods to temporarily abandon golf as he struggles to salvage his marriage, reputation and a multibillion-dollar endorsement business, does more than give Mr. Woods time and privacy to repair relations with his family.

Sports marketers said the move, announced after negotiations with major sponsors, also appears designed to give backers such as **Procter & Gamble** Co.'s Gillette, **Nike** Inc., **Accenture** PLC and **AT&T** Inc., a face-saving opportunity to scale back their associations with the golf superstar without abandoning him entirely.

Most of Mr. Woods's sponsorships and advertising campaigns are tied to his golf game, marketing executives said.

Pulling Mr. Woods from ads doesn't necessarily terminate a company's official deal with the golfer, a step that could carry risks should the scandal blow over and Mr. Woods return to golf.

Mr. Woods, reeling from two weeks of revelations of alleged extramarital affairs, said Friday he would take an indefinite break from his golf career to focus on his family after a Nov. 27 car accident outside his home that led to media scrutiny of his personal life.

Razor-blade maker Gillette said Saturday it was limiting Mr. Woods's role in its marketing programs, becoming the first major sponsor to publicly sideline the golfer. "As Tiger takes a break from the public eye, we will support his desire for privacy by limiting his role in our marketing programs," Gillette spokesman Michael Norton said in a statement.

"Marketers want to distance themselves, but do it discreetly, do it quietly. They have to," said Howe Burch, executive vice president and managing director at **TBC**, an independent ad agency based in Baltimore. Mr. Burch formerly arranged major athletic sponsorships while running marketing programs at a unit of Italian apparel maker **Fila Holding** and Reebok International Ltd., a unit of **Adidas** AG.

Companies pay Mr. Woods about $90 million annually in sponsorship fees. Gillette's decision to limit Mr. Woods in its marketing comes as other sponsors evaluate their relationship with the golfer.

While the details of Mr. Woods's endorsement deals remain secret, such agreements often include performance obligations and bonuses. They require athletes to play in a certain number events. The better the players do, and the more times they win, the more they get paid. Such clauses protect companies in the event of injury, or in the case of Mr. Woods, a voluntary decision by the athlete not to compete.

Endorsement pacts also typically include a "morality clause" that gives marketers an out should a scandal arise.

"He's put everyone in purgatory, and in sports marketing that is the last place anyone wants be," said David Carter, an industry consultant who directs the Sports Business Institute at the University of Southern California.

Since the crash, Mr. Woods' sponsors have stayed largely silent about whether they will continue their long-term relationships with him. Nike, which pays Mr. Woods more than $20 million annually, announced it was standing by the golfer, who forms the backbone of the company's half-billion-dollar-a-year golf apparel business. Nike had little involvement with golf until Mr. Woods turned professional in 1996.

Agence France-Presse Photo

Tiger Woods, shown in October at a golf tournament in San Francisco.

Mr. Carter said the corporate sponsors' decisions to stay out of the fray to date are likely calculated choices to limit their associations with Mr. Woods.

"You become a major part of the story if you terminate his contract right now, and I'm not sure that's something that you want," Mr. Carter said. "Instead you may bay be better off attempting to pull a Tiger Woods — keep quiet as long as you can and hope another scandal breaks out to replace it."

Accenture marketing executives this weekend were deliberating its relationship with Mr. Woods, according to people familiar with the situation.

The consulting firm had removed the golfer's image from a page on its Web site where it had been as late as Thursday. It wasn't clear if the company had decided to terminate its endorsement deal with the golfer. An Accenture spokesman couldn't be reached for comment.

AT&T is "presently evaluating our ongoing relationship with him," Mark Siegel, a spokesman for AT&T said after the announcement Friday.

Pulling Mr. Woods from ads without discontinuing a sponsorship gives marketers some time to evaluate the impact of his scandal on their brands. It also leaves open the possibility of bringing Mr. Woods back to the marketing lineup once he returns to the golf course, marketing experts say.

Gillette, for instance, officially is continuing to sponsor Mr. Woods, Mr. Norton said. He declined to comment on whether Gillette is changing the terms of its contract with the golfer.

Several marketers, including Nike, videogame maker **Electronic Arts** Inc. and **PepsiCo** Inc.'s Gatorade sports drink, continued to stand by Mr. Woods.

PepsiCo is dropping its Gatorade Tiger Focus drink, which is named after Mr. Woods from its lineup. The company said the move was part of a broader overhaul of its Gatorade brand that has been in the works for months, and wasn't connected with Mr. Woods's recent troubles.

Tag Heuer, an **LVMH Moët Hennessy Louis Vuitton** unit, couldn't be reached for comment. The watchmaker continued to feature Mr. Woods on its Web site as of Saturday, sporting the company's "Link" and "Golf Watch" lines.

Gillette has used tapped Mr. Woods as a sponsor since 2007 for its "Gillette Champions" ad campaign that features Mr. Woods, baseball player Derek Jeter and tennis player Roger Federer. The program "builds on Gillette's rich history in the world of sports and epitomizes their commitment to providing 'The Best a Man Can Get,'" according to Gillette's Web site.

The campaign includes TV, print, online and in-store advertising, Mr. Norton says. Most recently, Gillette ran a 30-second TV spot including Mr. Woods on Nov. 29, according to Nielsen Co., which scans telecasts on major broadcast networks and 19 cable networks.

—Matthew Futterman contributed to this article.

CORPORATE NEWS

UAW sets next president

Negotiator for Ford contract expected to be nominated to lead union

By Matthew Dolan And Jeff Bennett

United Auto Workers union officials next week are expected to nominate the head of the union's **Ford Motor** Co. negotiating group as its next president, according to a person familiar with the selection.

Bob King, 63 years old, is supported by current president, Ron Gettelfinger, who is planning to leave the post and will oversee the nomination process at a meeting on Wednesday, the person said. Mr. King currently oversees the union's relationship with Ford.

While the nominations of Mr. King and several others are not expected to face serious opposition, their selection will have to be approved by rank-and-file members at a UAW convention next June. Neither Mr. Gettelfinger nor Mr. King could be reached for comment.

The change in leadership comes as the U.S. auto industry's future appears to be brightening. Ford has said it expects to turn profitable in 2011 while General Motors Co. and Chrysler Group LLC are reshaping themselves after bankruptcy filings that removed billions of dollars of debt from their balance sheets.

The UAW now owns stakes in Chrysler and GM as part of the bankruptcy and has seats on the boards of both auto makers.

"My sense is that the membership is hoping Bob will be a tougher negotiator," said Brian Pannebecker, a 13-year veteran at Ford's Sterling Heights plant that produces parts for F-series pickup trucks.

The UAW continues to shrink. Its membership is now below 435,000 amid the buyouts of thousands of Detroit Three auto workers in recent years.

Associated Press

UAW Vice President Bob King, at left with UAW President Ron Gettelfinger, is expected to be nominated as the new head of the union.

Union spokesman Roger Kerson couldn't be reached for comment. Ford spokeswoman Marcey Evans said the auto maker doesn't comment on internal changes at the UAW.

Mr. King graduated from the University of Michigan in 1968 and received a law degree in 1973 from the University of Detroit. He was elected to a third term as vice president of the UAW in 2006 and gained notoriety for guiding a new contract with Ford through a rank-and-file vote in 2007.

Ford was the only auto maker not to suffer a strike as the UAW also negotiated contracts with GM and Chrysler.

Mr. King long had been considered Mr. Gettelfinger's successor. His image took a hit in October and November when he asked Ford union members to approve controversial concessions, including a measure that would bar the union from striking, according to two people familiar with the matter.

The concessions were aimed at putting Ford on par with those offered to GM and Chrysler as part of their bankruptcy restructuring. Rank-and-file members overwhelmingly rejected the concessions.

"He will have some bridge building to do," said one of the two people familiar with the matter. "We know he was in a rough spot but he needs to come out and take charge."

Mr. King competed for the top job against Dennis Williams, a regional UAW director who joined the union in 1977 and now oversees operations in several Midwest states, according to the person familiar with the matter. The union spokesman declined to make Mr. Williams available to comment.

EGGS
IN EGYPT.

Wendy's to leave Japan amid tough competition

By Hiroyuki Kachi

TOKYO—Hamburger restaurant Wendy's will close its doors in Japan as the local operator of the U.S. fast-food chain struggles with cutthroat competition.

Zensho Co., which runs 71 Wendy's burger shops mainly in the Tokyo metropolitan area under a trademark accord, will terminate its hamburger-chain franchise contract with the **Wendy's/Arby's Group** Inc. on Dec. 31, the company said on Thursday.

With 60 regular employees and 1,900 part-time workers, Wendy's Japan racked up sales of 6.2 billion yen ($70 million) in the fiscal year ended in March. Despite posting a profit in the previous fiscal year, Zensho has decided to focus its resources on other businesses such as its Sukiya beef-bowl chain.

In Japan, the first Wendy's opened its doors in Tokyo's posh Ginza district in 1980. It was initially operated by supermarket chain Daiei Inc., but Zensho acquired the operations of the burger business in 2002.

Larger U.S. rival **McDonald's Holdings** Co. (Japan) has been performing well in the Japanese market and has posted gains in store sales recently despite the economic slowdown. While a 100-yen "one-coin" menu at McDonald's initially narrowed the company's profit margin, the menu eventually became a hit and led to customers buying higher-priced items.

Asustek plans to spin off unit

By Charmian Kok

TAIPEI—**Asustek Computer** Inc. said it plans to proceed with a spinoff of its contract manufacturing unit in July, a move that the Taiwan maker of motherboards and notebook computers hopes will let it focus on building business around its own brand.

As part of the move, Asustek shareholders will receive 2.29 billion new shares in a newly established company, to be called Pegatron Holding, that will incorporate Asustek's Pegatron Technology unit. Pegatron Holding will then seek a listing in the second half of 2010, David Chang, Asustek's chief financial officer, said during a news conference Thursday.

Asustek said it values Pegatron Holding around $2.9 billion.

Asustek started out primarily as a contract manufacturer but in recent years has made headway selling products under its own Asus brand. In 2007 the company launched the world's first netbook, called Eee PC. Netbooks—low-priced, slimmed down notebook PCs—are now one of the industry's fastest-selling segments.

As Taiwan's technology industry matures, several companies such as Asustek have been shifting from making PCs, gadgets and components for others toward building proprietary brands.

The shift comes as the companies seek better profit margins and to establish a global presence.

Analysts say the strategy of Taiwan companies building own-brand products is sound given the increasing competition from China and India that could limit further growth in contract manufacturing.

The planned spinoff of Pegatron follows through on a blueprint unveiled nearly two years ago, when Asustek first split its contract manufacturing operation into a separate unit.

The goal of the changes is to reduce competition between Asustek's own brand and the big-name PC companies for which its contract manufacturing arm produces.

"We are spinning off Pegatron so it can have more contract orders from other PC brands," Mr. Chang said.

Vodafone open to selling Bharti Airtel stake

By Jai Krishna And Rumman Ahmed

BANGALORE—The U.K.'s **Vodafone Group** PLC is open to selling its 4.4% indirect stake in **Bharti Airtel** Ltd., India's largest mobile operator by revenue, a company representative said Sunday.

"We are open to discussions concerning the Bharti shareholding if any potential buyers wished to engage with us," the representative said.

The statement also said Vodafone would consider listing Vodafone Essar Ltd., its Indian telecom unit. "An [initial public offering] is an option which we will decide upon in the future dependent on various factors, including any required changes in the shareholding structure of Vodafone Essar," it said.

Vodafone Essar is the third-largest mobile company after **Reliance Communications** Ltd., the second-largest service provider based on the number of subscribers in India.

Competition in India, the fastest-growing market for wireless services in the world by the number of new users, is stiff, with companies offering charges as low as one cent a minute for some calls and billings based on usage per second under certain schemes.

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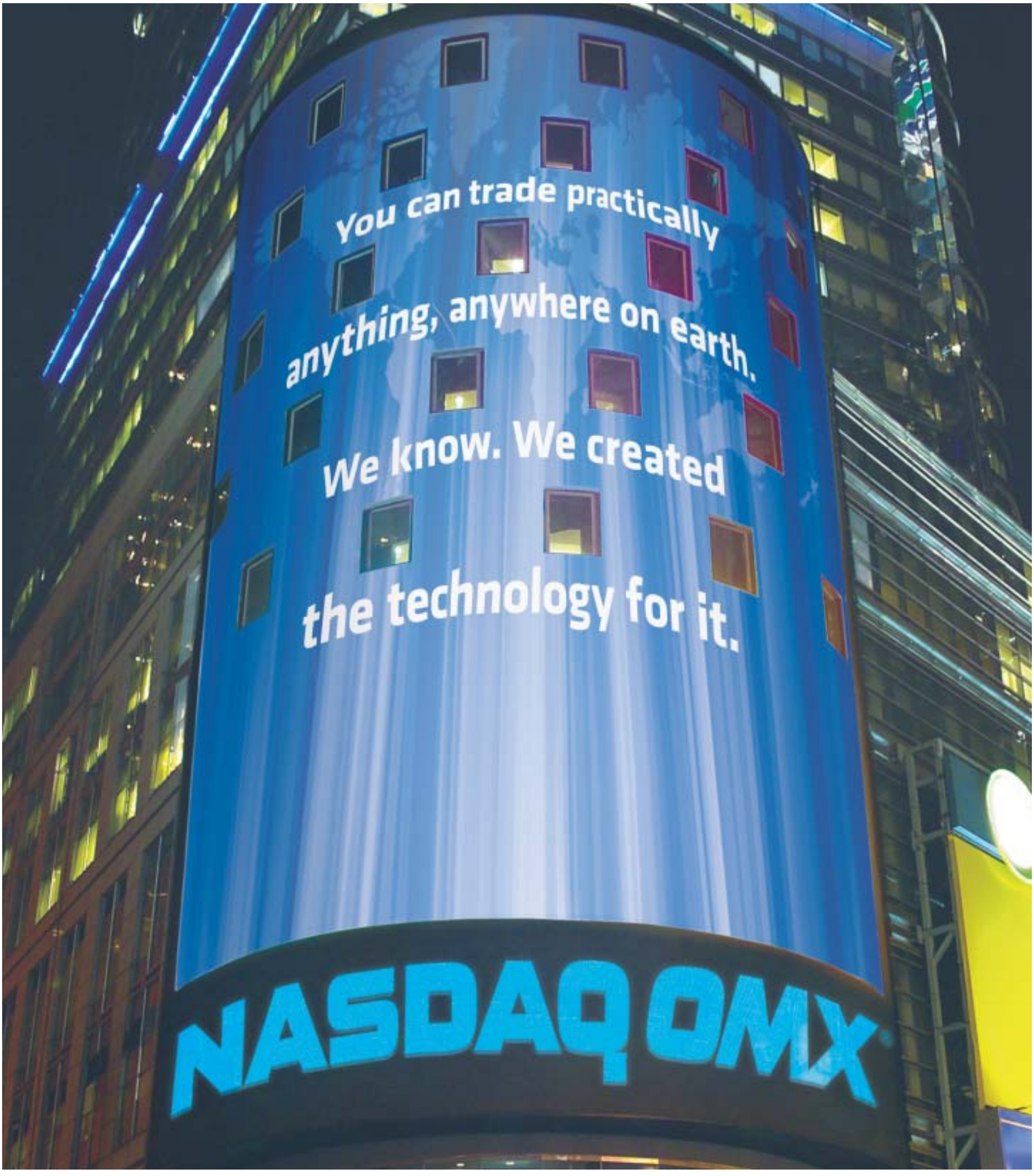

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Unilever drops palm-oil supplier

By Tom Wright

JAKARTA, Indonesia—**Unilever** PLC said it would stop buying palm oil from Indonesian producer PT **Sinar Mas Agro Resources & Technology** after fresh allegations emerged that the company is destroying rainforests to make way for plantations.

Unilever's decision comes after environmental campaigner Greenpeace alleged in a report that the company, one of Indonesia's largest producers of palm oil, was illegally cutting virgin rainforest in West Kalimantan province, home to orangutans, gibbons and other rare species.

Sinar Mas Agro, in a statement, said Greenpeace's report was based on "inaccurate, misleading, exaggerated and generalized data and claims." The palm-oil market is fragmented, meaning the Unilever order cancellation won't make a material difference to overall sales, said a spokeswoman for the company.

The spotlight on the damage to Indonesia's forests—an area half the size of Switzerland is lost to deforestation yearly—comes as climate-change negotiators meet this week in Copenhagen. Indonesia is the world's third-largest largest emitter of carbon dioxide, the greenhouse gas, after the U.S. and China, due to forest destruction. The burning of trees and peat lands to clear land for palm-oil plantations releases massive amounts of carbon dioxide into the atmosphere.

The Greenpeace report alleges the company cut forests without permits, failed to protect areas of high biodiversity, and drained environmentally valuable peat lands, violating Indonesian laws and the principles of the Roundtable on Sustainable Palm Oil, a green certification body set up by environmentalists and corporations. Sinar Mas Agro is a member of the group.

Associated Press

A Greenpeace activist in an orangutan costume takes part in a protest against Sinar Mas in Jakarta, Indonesia, on Friday.

"The Greenpeace claims are of a nature that we can't ignore," Marc Engel, chief procurement officer of Unilever, said on Friday. The company is the world's largest single buyer of palm oil, which is used in products such as margarine and cosmetics. "We have no choice but to suspend our future purchasing of palm oil," Mr. Engel said.

The company is owned by Indonesia's Sinar Mas Group, whose **Asia Pulp & Paper** Co. Ltd. unit, a major producer of photocopier paper, paper bags and stationery products, has lost key U.S. and European customers in recent years on concerns the company's operations have led to forest destruction in Indonesia.

Sinar Mas Group has in the past denied claims that it improperly cleared forest and said it is committed to protecting the environment. In the statement, Sinar Mas Agro denied it cleared primary rainforest and said plantations on peat lands accounted for only 4% of total plantations managed by the company. It also denied that its companies operated without necessary permits.

The Roundtable on Sustainable Palm Oil was set up earlier this decade by Unilever, the environmental group WWF, Malaysian plantation companies and a Swiss supermarket chain to set minimum environmental standards. Today, 5% of the 45 million tons of crude palm oil produced annually is certified by the RSPO as coming from production methods that don't destroy forests.

Fund targets Chinese film, television

By Ellen Sheng

HONG KONG—Hong Kong based private-equity firm **Infiniti Capital** said it is looking to raise between US$200 million and US$400 million for a fund that will invest in film, television and other projects targeting the Chinese market.

Infiniti said it has teamed up on the new fund with Chengdu-based Green Leaf Film Studios and Oscar-winning design and special-effects specialist Richard Taylor.

The fund, called **Panda Screen Productions**, will focus on animated and visual effects-driven live action products. Some projects will be aimed specifically at the domestic Chinese market while others will seek a more global audience.

The new fund will be managed by Infiniti Capital's Hong Kong unit, **Infiniti Advantage** Ltd. Infiniti Capital has more than US$1 billion in assets under management.

Jindal Steel OKs unit IPO

The board of **Jindal Steel & Power** Ltd. approved the proposed initial public offering of its subsidiary **Jindal Power** Ltd.

Jindal Power plans to raise up to 100 billion rupees ($2.15 billion) through the share sale, Jindal Steel & Power said in a notice to the National Stock Exchange.

"The amount is certainly higher than what we had expected them to raise. They may still be able to raise 100 billion rupees, but a lot depends on pricing and the timing of the issue," a local analyst said.

—Satish Sarangarajan in Mumbai

Goldman Sachs fueled AIG's expensive mortgage gambles

Continued from page 23

being untangled in legal and regulatory inquiries. Last month a government audit of part of the AIG bailout described Goldman's middleman role.

One of Goldman's trades with AIG involved a financial vehicle called South Coast Funding VIII. South Coast was one of many pools of bonds backed by individual homeowners' mortgage payments that Wall Street turned into collateralized debt obligations, also known as CDOs.

Merrill Lynch, now part of **Bank of America** Corp., underwrote the South Coast CDO in January 2006 by stuffing it with packages of home loans originated by firms such as Countrywide Financial Corp., the big California lender.

Once a CDO debt pool is assembled, it is sliced into layers based on risk and return. Merrill sold the safest, or top layer, of deals like South Coast to large banks, including in Europe and Canada.

The banks wanted protection in case the housing market tanked. Many turned to Goldman, which effectively insured the securities against losses. Then, to cover its own potential losses, Goldman bought protection from AIG, in the form of derivatives known as credit-default swaps.

Goldman charged more than AIG for the protection, so it was able to pocket the difference, making millions while moving the default risks to AIG, according to people familiar with the trades.

The banks eventually realized they didn't need to use Goldman as a middleman.

The trades seemed prudent at the time given AIG's strong credit rating and the fact that AIG agreed to make payments to Goldman, known as collateral, if the value of the CDOs declined. The trades were also low risk for Goldman as long as AIG stayed afloat.

Other banks also acted as middlemen, including Merrill Lynch, which did roughly $6 billion of these deals compared to $14 billion for Goldman, according to people familiar with the trades and the analysis of banks' exposures to AIG.

"It seems shocking to me that Goldman would become so exposed to AIG and kept doing deals with them and laying on the risk," says Tom Savage, a former chief executive of AIG's financial products unit who left in 2001 before the explosive growth of insuring mortgage-debt pools.

The middleman trades began to unravel in mid 2007 when the U.S. mortgage market started slumping. Goldman was the first of AIG's trading partners to notify AIG that the CDOs were losing value and demand collateral.

Other banks including Société Générale and a unit of **Credit Agricole** that had bought insurance from AIG eventually did the same.

A Goldman spokesman said that between mid-2007 and early 2008, Goldman showed AIG "market price levels" at which trades could be undone, allowing AIG to decrease its risk, but "AIG refused to accept that the market was deteriorating."

When Goldman didn't get as much collateral as it wanted from AIG, in 2007 and 2008 it bought protection against a default of AIG itself from other banks.

—Amir Efrati contributed to this article.

Bankers get the scraps from Korea's deals; government stake sales are main course

Continued from page 23

second-largest brewer in a US$1.8 billion deal from Belgian brewer Anheuser-Busch InBev in what is still Asia's biggest leveraged buyout since the financial crisis. Bankers had hoped for a stream of private-equity acquisitions in South Korea.

But most of the activity has been in private-equity firms exiting deals, rather than making new investments. **Unitas Capital** has shortlisted four bidders to buy its South Korean convenience store chain **Buytheway** Inc. **Affinity Equity Partners** signed a deal to sell cosmetics firm **Thefaceshop Korea**. And there is increasing talk that **Lone Star Funds** may try, for the third time in four years, to sell its 51% stake in Korea Exchange Bank, the country's sixth-largest lender.

The real action for asset sales in South Korea lies with state-run creditors that want to sell out of what are now equity stakes. State-run **Korea Asset Management** Corp., the **Korea Development Bank** and **Korea Deposit Insurance** Corp. provided loans to key companies in the wake of the 1998 Asian economic crisis and before the credit crisis late last year. The loans have been converted into equity holdings. Some of these conglomerates, such as the liquidity-starved **Kumho Asiana Group**, have been forced to sell operations after going on a buying spree in recent years.

For Hynix, whose shareholders include the Korea Development Bank and Korea Exchange Bank, the sale process will be its second in weeks. Domestic conglomerate **Hyosung** Corp withdrew its sole bid for a controlling 28% stake last month. Korea Deposit Insurance Corp. has also been whittling down its position in **Woori Finance Holdings** Co., most recently with a $750 million sale of a 7% stake. It still owns 66% of the company, but has been open about cutting its shareholding to 50% plus one share and then selling that for a premium.

With government stakes the main event, it isn't all good news for bankers hoping to profit from advisory fees. South Korean banking fees tend to be on the low side. Anecdotally, fees for initial public offerings are, on average, just 1.5% of the deal size, compared with 2.5% to 3.5% for Chinese transactions, or 4% for Japanese deals, according to bankers.

M&A fees stack up against the rest of the region for private deals, but on government-backed sales, the process has all the trappings of a sale run by bureaucrats. Government-backed owners, when looking for an adviser on sales, generally pick the bank that charges a fee in the middle of a range to play it safe, instead of picking the bank that has a strong strategy for selling the asset but happens to charge more. In some sales, foreign banks are charging below cost in an effort to win future mandates.

Here is the silver lining for deal makers. As the backlog of government sell-downs is being cleared, there are murmurings that the family-owned conglomerates known as *chaebol* may ramp up the sale of noncore assets or go on the hunt for overseas assets as the won strengthens.

Until then, bankers looking for payback from these times of strained fees and subdued deal-making globally won't see Korea enriching many pockets.

MARKETS

Nakheel's next test comes Monday

Speculation swirls of a partial repayment of the troubled $3.52 billion bond as it matures, boosting Dubai stocks

By Stefania Bianchi

DUBAI—Troubled Dubai developer **Nakheel** will seek to reach an agreement on its $3.52 billion bond due Monday rather than risk further fallout from the **Dubai World** debt crisis that has rocked confidence in the emirate, experts said Sunday.

Most analysts expect that Nakheel will try to repay the majority of the Islamic bond, or *sukuk*, despite a debt-freeze request late last month by its parent company, Dubai World.

A Nakheel spokesperson referred questions from Zawya Dow Jones to a Dubai World spokesperson, who declined to comment.

"We believe that the most likely scenario, and also the best-case scenario, could involve a part repayment on the sukuk—for example, 60 cents to 70 cents to the dollar—with the remainder of the debt restructured over a new maturity," said Fahd Iqbal, Gulf strategist at Egyptian investment bank EFG-Hermes.

Such an outcome would be beneficial to both parties, Mr. Iqbal said, "giving creditors a portion of their money back with a promise for the remainder to be delivered at a later stage, while Dubai World, along with other government-related parties, would have continued access to capital markets."

Dubai rocked world markets in late November when it requested a freeze on debt payments by Dubai World in order to restructure the conglomerate. Nakheel's bond is seen by many as a litmus test for Dubai's ability to repay more than $80 billion of government and corporate debt. A two-week grace period beyond Monday allows the issuer until Dec. 28 to repay. If it hasn't paid by then, bondholders can start legal proceedings.

Dubai World last week began talks with banks to restructure $26 billion of debt, including the bond.

"There is talk in the market that a deal, which is acceptable to all parties, could be reached," said Mohammad Ali Yasin, managing director of brokerage firm Shuaa Securities. "The deal could include a payment to holders as high as 70%, while the other 30% could be capitalized or refinanced."

Talk that Nakheel could reach a positive outcome helped boost shares in Dubai on Sunday. The Dubai Financial Market's main index rose 3.3% to 1695.35, extending Thursday's 7% rally. The benchmark is still down about 19% since Dubai World requested the debt freeze.

Nakheel, which last week posted a first-half loss of 13.4 billion dirhams ($3.65 billion), said at the then that "whilst the management and shareholders remain optimistic, the outcome of such a request cannot currently be determined."

Some analysts say the Dubai government's silence on the issue since the debt-freeze request on Nov. 25 could mean that an agreement is unlikely.

"Our base-case assumption is that the bond will not be repaid by Nakheel given that the last formal announcement by the government was the debt-standstill request, although there could be a last minute U-turn," saidPhilipp Lotter, senior vice president for Gulf corporates at Moody's Investors Service in Dubai.

—Tim Falconer and Mirna Sleiman contributed to this article.

Reuters

Sheikh Zayed Road is lined with skyscrapers, now a symbol of Dubai's woes/

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Tel: 86-21-6145 8888 ◆ Fax: 86-21-6280 3353
Grand Hyatt Shanghai
Tel: 86-21-5049 1234 ◆ Fax: 86-21-5049 1111

SUZHOU
Sheraton Suzhou Hotel
Tel:86-512-65103388◆Fax:86-512-65190918

❖ HONG KONG

Conrad Hong Kong
Tel: 852-2521 3838 ◆ Fax: 852-2521 3888
Langham Hotel Hong Kong
Tel: 852-2375 1133 ◆ Fax: 852-2375 6611
Island Shangri-La Hong Kong
Tel: 852-2877 3838 ◆ Fax: 852-2521 8742
Kowloon Shangri-La Hong Kong
Tel: 852-2721 2111 ◆ Fax: 852-2723 8686
Hotel Inter-Continental
Tel: 852-2721 1211 ◆ Fax: 852-2739 4546
Sheraton Hong Kong Hotel & Towers
Tel: 852-2369 1111 ◆ Fax: 852-2739 8707
JW Marriott Hotel
Tel: 852-2810 8366 ◆ Fax: 852-2845 0737
The Park Lane Hotel
Tel: 852-2293 8888 ◆ Fax: 852-2576 7853
Four Seasons Hotel Hong Kong
Tel: 852-3196 8888 ◆ Fax: 852-3196 8899
The Excelsior Hong Kong
Tel: 852-2894 8888 ◆ Fax: 852-2895 6459
Mandarin Oriental Hotel
Tel: 852-2522 0111 ◆ Fax: 852-2810 6190

❖ INDONESIA

JAKARTA
The Ritz-Carlton Jakarta, Pacific Place
Tel: 62-21-2550 1888 ◆ Fax: 62-21-2550 1999
Grand Hyatt Jakarta
Tel: 62-21-390 1234 ◆ Fax: 62-21-390 6426
Hotel Borobudur Jakarta
Tel: 62-21-380 5555 ◆ Fax: 62-21-380 9595
Hotel Inter-Continental Mid Plaza Jakarta
Tel: 62-21-251 0888 ◆ Fax: 62-21-251 1777
Le Meridien Jakarta
Tel: 62-21-251 3131 ◆ Fax: 62-21-571 1640
Dharmawangsa Hotel
Tel: 62-21-725 8181 ◆ Fax: 62-21-725 8383
The Ascott Jakarta
Tel: 62-21-391 6868 ◆ Fax: 62-21-391 3368
The Ritz-Carlton, Jakarta
Tel: 62-21-2551 8888 ◆ Fax: 62-21-2551 8889
Hotel Mulia, Senayan
Tel: 62-21-574 7777 ◆ Fax: 62-21-574 7888
Crowne Plaza Hotels - Resorts Jakarta
Tel: 62-21-526 8833 ◆ Fax: 62-21-526 8832
Menteng Executive Apartment Jakarta
Tel: 62-21-392 6178 ◆ Fax: 62-21-392 6068
Shangri-La Jakarta
Tel: 62-21-570 7440 ◆ Fax: 62-21-570 3530
JW Marriott Jakarta
Tel: 62-21-5798 8888 ◆ Fax: 62-21-5798 8956
Four Seasons Hotel
Tel: 62-21-252 3456 ◆ Fax: 62-21-252 4480

BALI
Le Meridien Nirwana, Bali
Tel: 62-361-81 5900 ◆ Fax: 62-361-81 5904

SURABAYA
Shangri-La Surabaya
Tel: 62-31-566 1550 ◆ Fax: 62-31-566 1570

❖ JAPAN

TOKYO
The Strings by Intercontinental Tokyo
Tel: 81-3-5783-1111 ◆ Fax: 81-3-5783-1112
Crowne Plaza Metropolitan-Tokyo
Tel: 81-3-3980 1111 ◆ Fax: 81-3-3980 5600
Royal Park Hotel
Tel: 81-3-3667 1111 ◆ Fax: 81-3-3667 1115
Hotel Okura
Tel: 81-3-3582 0111 ◆ Fax: 81-3-3582 3707
Hyatt Regency Tokyo
Tel: 81-3-3348 1234 ◆ Fax: 81-3-3344 5575
Hotel New Otani
Tel: 81-3-3265 1111 ◆ Fax: 81-3-3221 2619
ANA Intercontinental Tokyo
Tel: 81-3-3505 1111 ◆ Fax: 81-3-3505 1155
The Westin Tokyo
Tel: 81-3-5423 7000 ◆ Fax: 81-3-5423 7600
Park Hyatt Tokyo
Tel: 81-3-5322 1234 ◆ Fax: 81-3-5322 1288
Imperial Hotel
Tel: 81-3-3504 1111 ◆ Fax: 81-3-3504 1258
Hotel Seiyo Ginza
Tel: 81-3-3535-1111 ◆ Fax: 81-3-3535-1110
Grand Hyatt Tokyo
Tel: 81-3-4333 1234 ◆ Fax: 81-3-4333 8123
Mandarin Oriental, Tokyo
Tel: 81-3-3270-8800 ◆ Fax: 81-3-3270-8828
The Peninsula Tokyo
Tel: 81-3-6270 2888 ◆ Fax: 81-3-6270 2000

Yokohama
Intercontinental Yokohama Grand
Tel: 81-45-223 2222 ◆ Fax: 81-45-221 0650

❖ KOREA

SEOUL
Grand Hyatt Seoul
Tel: 82-2-797 1234 ◆ Fax: 82-2-798 6953
Novotel Ambassador Gangnam
Tel: 82-2-531 1101 ◆ Fax: 82-2-564 4573
The Westin Chosun
Tel: 82-2-771 0500 ◆ Fax: 82-2-753 6370
Millennium Seoul Hilton
Tel: 82-2-753 7788 ◆ Fax: 82-2-754 2510
The Shilla
Tel: 82-2-233 3131 ◆ Fax: 82-2-233 5073
The Ritz-Carlton Seoul
Tel: 82-2-3451 8000 ◆ Fax: 82-2-556 8855
Grand Intercontinental Hotel
Tel: 82-2-555 5656 ◆ Fax: 82-2-559 7990
Coex Intercontinental Hotel
Tel: 82-2-3452 2500 ◆ Fax: 82-2-3430 8000
Lotte Hotel
Tel: 82-2-771 1000 ◆ Fax: 82-2-752 3758
JW Marriott Hotel
Tel: 82-2-6282 6262 ◆ Fax: 82-2-6282 6263

❖ MACAU

The Westin Resort, Macau
Tel: 853-2887 1111 ◆ Fax: 853-2887 1122

❖ MALAYSIA

KUALA LUMPUR
Mandarin Oriental Kuala Lumpur
Tel: 60-3-2380 8888 ◆ Fax: 60-3-2380 8833
Shangri-La Hotel Kuala Lumpur
Tel: 60-3-2032 2388 ◆ Fax: 60-3-2070 1514
Millennium Kuala Lumpur
Tel: 60-3-2141 8000 ◆ Fax: 60-3-2141 1441
Hotel Equatorial Kuala Lumpur
Tel: 60-3-2161 7777 ◆ Fax: 60-3-2161 7920
Pan Pacific Kuala Lumpur International Airport
Tel: 60-3-8787 3333 ◆ Fax: 60-3-8787 5555

❖ PHILIPPINES

MANILA
The Linden Suites
Tel: 63-2-638 7878 ◆ Fax: 63-2-638 7877
Great Eastern Hotel
Tel: 63-2-898 2888 ◆ Fax: 63-2-899 3196
Edsa Shangri-La
Tel: 63-2-633 8888 ◆ Fax: 63-2-631 1067
Makati Shangri-La
Tel: 63-2-813 8888 ◆ Fax: 63-2-813 5051
Peninsula Hotel Manila
Tel: 63-2-812 3456 ◆ Fax: 63-2-815 4825
Traders Hotel Manila (A Shangri-La Hotel)
Tel: 63-2-523 7011 ◆ Fax: 63-2-526 1598
Astoria Plaza
Tel: 63-2-687 1111 ◆ Fax: 63-2-910 0370
Century Park Hotel
Tel: 63-2-528 8888 ◆ Fax: 63-2-528 1811

❖ SINGAPORE

The Fullerton Hotel Singapore
Tel: 65-6733 8388 ◆ Fax: 65-6735 8388
The Ritz-Carlton Millenia
Tel: 65-6337 8888 ◆ Fax: 65-6338 0001
Fairmont Singapore
Tel: 65-6339 7777 ◆ Fax: 65-6337 1554
Sheraton Towers
Tel: 65-6737 6888 ◆ Fax: 65-6737 1072
Shangri-La Hotel
Tel: 65-6737 3644 ◆ Fax: 65-6733 1029
Conrad Centennial Singapore
Tel: 65-6334 8888 ◆ Fax: 65-6333 9166
Grand Hyatt Singapore
Tel: 65-6738 1234 ◆ Fax: 65-6732 1696

❖ TAIWAN

TAIPEI
Howard Plaza Hotel
Tel: 886-2-2700 2323 ◆ Fax: 886-2-2700 0729
Grand Formosa Regent
Tel: 886-2-2523 8000 ◆ Fax: 886-2-2523 3636
Far Eastern Plaza Hotel
Tel: 886-2-2378 8888 ◆ Fax: 886-2-2377 7777
The Sherwood Taipei
Tel: 886-2-2718 1188 ◆ Fax: 886-2-2719 7127
Westin Taipei
Tel: 886-2-8770 6565 ◆ Fax: 866-2-8770 6555
Les Suites Taipei
Tel: 886-2-8773 3668 ◆ Fax: 886-2-8773 3667
Grand Hyatt Taipei
Tel: 886-2-2720 1234 ◆ Fax: 886-2-2720 1111

❖ THAILAND

BANGKOK
Conrad Bangkok
Tel: 66-2-690 9999 ◆ Fax: 66-2-690 9310
Banyan Tree Bangkok
Tel: 66-2-679 1200 ◆ Fax: 66-2-679 1199
Mandarin Oriental Bangkok
Tel: 66-2-659 9000 ◆ Fax: 66-2-659 0000
Grand Hyatt Erawan Bangkok
Tel: 66-2-254 1234 ◆ Fax: 66-2-254 6336
The Peninsula Bangkok
Tel: 66-2-861 1111 ◆ Fax: 66-2-861 1112
Four Seasons Hotel Bangkok
Tel: 66-2-251 6127 ◆ Fax: 66-2-254 5391
The Dusit Thani Bangkok
Tel: 66-2-236 0450 ◆ Fax: 66-2-236 6400
The Sukhothai Bangkok
Tel: 66-2-344 8888 ◆ Fax: 66-2-344 8899
Shangri-La Hotel
Tel: 66-2-236 7777 ◆ Fax: 66-2-237 3753
Amari Airport Hotel
Tel: 66-2-566 1021-1 ◆ Fax: 66-2-566 1941
Amari Watergate Hotel
Tel: 66-2-653 9000 ◆ Fax: 66-2-653 9045
Amari Atrium Hotel
Tel: 66-2-718 2000 ◆ Fax: 66-2-718 2002
Boulevard Hotel
Tel: 66-2-255 2930/40 ◆ Fax: 66-2-255 2950
JW Marriott Bangkok
Tel: 66-2-656 7700 ◆ Fax: 66-2-656 7707
Sofitel Centara Grand Bangkok
Tel: 66-2-541 1234 ◆ Fax: 66-2-541 1460

CHIANG MAI
Amari Rincome Hotel
Tel: 66-5322 1130 ◆ Fax: 66-5322 1915

PATTAYA
Amari Orchid Resort
Tel: 66-38-428 161 ◆ Fax: 66-38-428 165

PHUKET
Sheraton Grande Laguna Phuket
Tel: 66-76-324 101 ◆ Fax: 66-76-324 108

❖ VIETNAM

HO CHI MINH CITY
Sofitel Plaza Saigon
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Icahn joins casino battle

The billionaire investor teams up with Andrew Beal against Trump

By Peter Grant

Associated Press (2)

Carl Icahn, right, is facing off against a group that includes Donald Trump and a group of note holders.

The battle over Donald Trump's Atlantic City casinos intensified as billionaire investor Carl Icahn entered the fray by joining forces with Texas banker Andrew Beal against Mr. Trump and a group of note holders.

Mr. Icahn said Friday that he had purchased a majority of Beal Bank's $486 million first-mortgage liens on casinos owned by **Trump Entertainment Resorts** Inc., which has been operating out of bankruptcy protection since February. Mr. Icahn said he will support a reorganization plan backed by Beal Bank that would give the Dallas bank a majority stake and control of the company.

Terms of the deal weren't released. But people familiar with the matter say Mr. Icahn is getting a 51% stake in the debt and is paying between 93 cents and close to 100 cents on the dollar. Also, the deal gives Mr. Icahn a "call," and Mr. Beal a "put," which, under certain circumstances, would increase Mr. Icahn's position, people said.

Mr. Beal had been aligned with Mr. Trump in the fight until last month, when Mr. Trump switched sides and joined note holders who hold roughly $1.25 billion in unsecured debt. That side has criticized Mr. Beal's reorganization plan partly because he has no experience in operating casinos and it is unusual for a bank to own a casino.

Mr. Icahn in an interview said his involvement undercuts that argument. "This completely takes away that criticism," he said.

The well-known corporate raider has been playing in a number of bankruptcy deals recently with mixed results. In gambling, he led a group of lenders that brought Tropicana Entertainment out of Chapter 11, and is making a bid to buy Fontainebleau Las Vegas, a stalled hotel-casino project also under bankruptcy protection.

Mr. Icahn had less success trying to derail a restructuring plan for CIT Group Inc., the embattled small-business lender. Mr. Icahn failed to persuade enough bondholders to block the plan and CIT went ahead with its prepackaged bankruptcy, from which it has since emerged.

This is the third time Mr. Trump's Atlantic City casinos have sought bankruptcy protection since he got involved in the business in the late 1980s.

Before the most recent Chapter 11 filing, he was chairman and owned a 23% stake but wasn't involved in daily operations.

No matter who wins the current fight, Mr. Trump's role will be even more reduced. Under the note holders' proposed reorganization plan, Mr. Trump would get a 5% to 10% stake in the company. Under the Beal plan, he wouldn't get anything. Beal Bank contends it would still have the right to use the Trump name on the casino for 10 years, but Mr. Trump's side disputes that.

"I haven't run the casinos for years and I'm no longer involved in this transaction," Mr. Trump said Friday. Earlier this month, he said he was eager to end the Chapter 11 process because his image is hurt when assets bearing his name are in bankruptcy.

The two sides have been trying to negotiate a settlement, but if that is unsuccessful, they will ask a bankruptcy judge early next year to choose between their rival reorganization plans. Mr. Beal's side believes he is in a better position because he controls the first lien on the properties. But people in Mr. Trump's camp and the note holders say their plan has the upper hand because it would essentially give Beal Bank a full recovery, by paying down its mortgage by $125 million and giving Beal new debt for the remainder of what it is owed.

Mr. Beal said he reached out to Mr. Icahn "to capitalize on his extensive experience both in the gaming industry and in turning around troubled companies."

—Mike Spector contributed to this article.

Copper miners look deep below the surface

By Jeffrey Sparshott And Matthew Walls

LONDON—Miners are increasingly looking at taking aging open-pit copper mines underground, a more expensive way to dig copper out of the earth but also an acknowledgment that big new discoveries near the earth's surface are harder to find.

The shift to underground mining would ensure copper supplies for coming decades, but the higher costs are likely to place upward pressure on prices. "There is definitely an emerging trend...toward underground operations," said Andrew Harding, **Rio Tinto** PLC's chief executive for copper. "In most of the developed mining regions, the surface copper reserves are coming toward an end."

Rio Tinto already has turned two open-pit mines in South Africa and Australia into underground operations. In Utah, Rio is exploring underground prospects around the century-old Bingham Canyon mine. Last year it announced the discovery of a copper-molybdenum deposit that stretches more than two kilometers underneath the pit. Rio also is in a venture with **BHP Billiton** Ltd. to develop the underground Resolution deposit in Arizona, located near an abandoned open pit and believed to have more than one billion metric tons.

Anglo-Swiss miner **Xstrata** PLC earlier this month said it would invest $542 million to extend the life of its Ernest Henry mine in Australia by 12 years, to 2024, by taking operations underground.

Freeport-McMoran Copper & Gold Inc. and Rio are developing underground operations at the Grasberg mine in Indonesia, a $6 billion project to maintain production after open-pit mining is expected to end in 2015.

The world's biggest copper producer by volume, state-owned Corporacion Nacional del Cobre de Chile, or Codelco, is studying a transition to underground mining at a mammoth mine called Chuquicamata.

Open-pit mining has dominated the copper industry since the first large open pits were developed in the 1900s and helped moderate metal prices for eight decades, as technology innovations allowed lower and lower grades to be mined profitably and in new ways. In 2008, 75% of global copper production came from open pits, according to Swedish metals consultancy and data provider Raw Materials Group.

Miners like Rio are predicting this period is gradually ending as some mines near exhaustion, major new discoveries remain scarce, and some of those regions with the largest prospecting potential are politically riskier than established areas.

Rio forecasts that by 2025, underground copper mines will produce about 40% of global output. With costs at underground mines now 60% higher than at open-pit mines, prices likely would jump too.

Not everyone shares Rio's vision. Magnus Ericsson, an analyst at Raw Materials Group, one of the industry's top consultancies, said the trend to underground mining won't be as pronounced as Rio believes. The development of a new technology since the 1990s has actually increased the proportion of open-pit mines, he said.

Fed could trigger reversal in risk

[Ahead of the Tape]

By Mark Gongloff

One key question for 2010 is how markets will react when the Fed takes back its easy money. The reaction could come sooner than many investors expect.

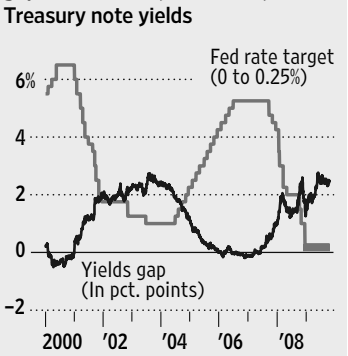
Federal Reserve policy makers meet Tuesday and Wednesday to discuss the economy, interest rates and their liquidity-pumping debt purchases.

Few fireworks are expected. Policy makers will likely leave their target for the federal-funds rate unchanged at nearly zero percent and are unlikely to make big changes to their views on asset purchases.

But the fed-funds futures market, where traders bet on future Fed policy moves, expects major changes fairly soon thereafter. Futures anticipate at least one rate increase by September. Fed officials have suggested that, before raising rates, they will use other tools to soak up some of the extraordinary liquidity in the system.

Now where?

Federal funds rate target and the gap between 10-year and 2-year Treasury note yields



Source: WSJ Market Data Group

And even before grabbing their mops, the Fed must telegraph what is about to happen.

In other words, if futures are correct, then the Fed will soon signal a sea change in policy, and that alone might be enough to trigger a reversal in the risky assets that have thrived on Fed policy for much of 2009.

That is basically what happened in 2004, the last time the Fed gingerly started raising rates, say Barclays Capital strategists Barry Knapp and Talley Leger.

Stocks weakened about six months before rate increases began, and the gap between 10-year and two-year Treasury note yields shrank, a sign that markets expected a slower economy.

The effect could be more pronounced this time, given today's unusual Fed policy and its influence on all sorts of investments. Fed debt purchases alone have pushed investors to seek yield in credit, equity and other markets.

Without Fed purchases, the fixed-income market will have a harder time digesting roughly $2 trillion in new debt issuance next year, says Mr. Knapp, likely pushing interest rates higher.

This view hinges on Barclays's fairly bullish outlook for employment and economic growth in 2010.

If the economy recovers more slowly than expected, then the Fed will also tighten policy more slowly. But in that case, the fundamental rationale for owning risky assets will also be weaker.

Investors bet on inflation

Continued from page 23

the point where it's pricing in excessively high inflation," says Kenneth Volpert, who manages the Vanguard Inflation-Protected Securities Fund.

Mr. Longo acknowledges that the TIPS market isn't even flashing warning lights about inflation, but says that for longer-term investors, the time to buy inflation protection is when it's cheap.

"The market is driven by short-term traders," he says. "The traders think they can be nimble and jump on the bandwagon."

But with many investors at least in part blaming the Fed for fueling the housing bubble with low interest rates in the early part of this decade, there is less confidence in the central bank's abilities to avoid an inflation flare-up. They argue that while there isn't inflation among consumer goods, there has been inflation among asset prices, such as in the stock and bond markets.

In the view of some, more important to the inflation outlook is the massive amount of liquidity sloshing around in the financial system. Once banks pick up lending, some say that liquidity will act like a match to gasoline, igniting inflation.

Rising inflation amid an economic recovery is one reason why Morgan Stanley's European strategists are recommending, energy, materials and consumer staples stocks. Consumer staples, particular food and tobacco stocks, tend to do well in rising inflation environments, plus have the added benefit of enjoying good exposure to emerging markets, a part of the globe expected to have strong growth, says Morgan's European equity strategist, Ronan Carr.

In the bond market, the fact that TIPS haven't priced in a meaningful rise in inflation means they are cheap should price pressures materialize. TIPS are priced "for the Fed getting it right," says Barclays Mr. Pond.

At Neuberger Berman, portfolio manager Thanos Bardas argues that TIPS are cheap. But he also thinks investors should build other layers of protection. They should maximize the income potential from their bond portfolio through lower-rated investment-grade bonds and high-yield debt, he says.

However, it is better on average to reduce the sensitivity of a bond portfolio to changes in interest rates, he said. Sticking to shorter maturities allows investors to reinvest their money at higher rates as inflation rises.

"Investors have a year or two to build a bomb shelter against inflation," says Milton Stern, a principal at Bridgewater Advisors. He puts clients in TIPS, but as part of routine diversification. But he adds it doesn't mean waiting until an inflation surge is clearly under way because the market will have already reacted.

It is a challenge to get the timing right, he concedes. "Nobody is going to ring a bell and say now's the time to get inflation protection."

Japanese yields rise on discord

Government divided on bond-issue target

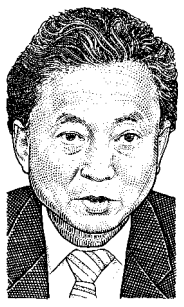
By Takashi Nakamichi

TOKYO—An apparent disagreement between ruling politicians on whether Japan should stick to a widely discussed limit on new bond issuance sent yields on government debt climbing.

It was the latest example of how the new government has been sending conflicting messages on major policy matters. The benchmark 10-year yield jumped 0.04 percentage point to 1.28% after rising as high as 1.30% during the day.

BOND MARKETS

Prime Minister Yukio Hatoyama told a news conference that a bond-issuance target of 44 trillion yen ($498.81 billion) in the next fiscal year is "not something we should abandon too easily." But he said, "It is the government's duty to protect our citizens ...we're not saying [the bond sales] must not top [the target] by even one yen."



Yukio Hatoyama

Until recently, Mr. Hatoyoma had pledged to keep new-debt issuance below 44 trillion yen. But with deflation and a strong yen hitting the economy, he and others appear less committed to the limit on the view that supporting the economy needs to be the top priority, even if that means more debt.

Deputy Prime Minister Naoto Kan also suggested Friday that he was flexible on the target, saying he "can't at this stage characterize the nature of the new bond-issuance figure."

Hirohisa Fujii

In the other corner was Finance Minister Hirohisa Fujii, whose office has long pushed for aggressive fiscal rebuilding and who sounded adamant that the limit needs to be defended. "It is imperative that we do this," he said at a separate news conference.

Mizuho Securities market analyst Masashi Shimominami said, "The serious problem is that many investors have become skeptical about whether the [government] will maintain fiscal discipline down the road."

Chinese data, weak yen boost Japan shares

By Ayai Tomisawa And V. Phani Kumar

Japanese shares rebounded from three days of declines as the yen fell and data from China appeared to show that the economic recovery there is gaining momentum.

The Nikkei Stock Average of 225 companies climbed 2.5% to 10107.87. For the week, the Nikkei added 0.9% and is up 8.2% for December.

ASIAN-PACIFIC STOCKS

The upbeat Chinese economic data gave a lift to construction-equipment manufacturers such as **Komatsu**, as well as other China-sensitive shares such as **Kyocera** and **Honda Motor** on hopes for improving product demand.

Komatsu rose 3.4%, **Hitachi Construction Machinery** added 4.7% and Honda rose 2.7%.

Exporters rebounded from recent losses as the yen retreated against the dollar. **TDK** surged 6.2%, **Nissan Motor** added 3.9%, and **Toyota Motor** gained 2.7%.

The gains came ahead of next week's *tankan* business-sentiment survey by the Bank of Japan.

"We look for a stronger-than-consensus reading on the tankan survey and look for a strong improvement in the large manufacturers' business conditions," said Mitul Kotecha, head of global forex strategy at Calyon. "This will come as better news about recovery prospects and likely play positive for Japanese equities."

Sapporo Holdings rose 4.3% as investors welcomed the brewer's announcement that it will enter Vietnam's beer market by buying a 65% stake in Kronenbourg Vietnam for about $25 million.

On the downside, **Japan Airlines** fell 1% on a report the government won't fund loan guarantees to help the ailing carrier.

Most other Asian markets advanced less than 1%.

Despite the positive economic report, China's Shanghai Composite slipped 0.2% to 3247.32. Property stocks and banks declined on worries that Beijing plans to curb speculation in the property market. **Beijing Huaye Realestate** slipped 1.5% and **Poly Real Estate Group** fell 1%.

FUND SCORECARD

Greater China Equity

Funds that invest in companies from the mainland of China, Hong Kong and Taiwan. At least 50% is invested in China, and 75% of assets are invested in equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending December 11, 2009

Leading 10 Performers

FUND RATING*	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US** YTD	1-YR	2-YR	5-YR
NS	**UPAMC GREAT CHINA**	Uni-President Asset Management Co., Ltd	TWD	Taiwan	**94.41**	92.72	3.25	NS
2	**UNION China**	Union Securities Invest Trust Co., Ltd	TWD	Taiwan	**90.16**	91.76	0.86	9.36
4	**Value Partners Classic A**	Value Partners Hong Kong Limited	USD	Cayman Isl	**81.77**	87.84	-4.01	17.31
2	**Cathay Greater China**	Cathay Sec Inv Trust Co., Ltd	TWD	Taiwan	**84.41**	86.83	-5.53	11.91
3	**UBS (Lux) EF Greater China USD P**	UBS Equity Fund Management Company S.A.	USD	Luxembrg	**92.73**	85.39	-9.58	22.29
1	**Tury China Equity A**	CPB Kapitalanlage GmbH	EUR	Austria	**93.47**	81.14	-29.99	9.02
1	**Premier China Enterprise Acc**	Premier Portfolio Managers Limited	GBP	United Kingdom	**76.40**	72.51	-8.19	NS
4	**CAAM Funds Greater China C**	Crédit Agricole-LCL	USD	Luxembrg	**71.63**	72.41	-14.49	20.61
2	**FSITC Greater China**	First Securities Invmt Trust Co., Ltd	TWD	Taiwan	**70.09**	71.63	-10.29	13.45
3	**Pru IOF Greater China Eq C**	Prudential Asset Mgmnt (Singapore) Ltd	USD	Luxembrg	**74.39**	70.28	-8.35	13.08

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

Source: Morningstar, Ltd
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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
AHW Top-Div.Int.	GL	EQ	LUX	12/11	EUR	52.75	17.0	5.3	-30.7

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
Am Eq Blend A	OT	OT	LUX	12/10	USD	10.22	24.5	25.4	-17.2
Am Eq Blend B	US	EQ	LUX	12/10	USD	9.60	23.2	24.0	-18.1
Am Growth A	US	EQ	LUX	12/10	USD	30.26	32.1	44.6	-8.9
Am Growth AX	US	EQ	LUX	12/10	USD	32.66	32.9	45.4	-8.4
Am Growth B	US	EQ	LUX	12/10	USD	25.46	30.9	43.1	-9.8
Am Growth C	US	EQ	LUX	12/10	USD	27.39	31.6	43.9	-9.3
Am Growth I	US	EQ	LUX	12/10	USD	33.53	33.2	45.8	-8.2
Am Income A	US	BD	LUX	12/10	USD	8.43	24.4	30.8	5.4
Am Income A2	US	BD	LUX	12/10	USD	18.97	24.6	30.7	5.4
Am Income A2	OT	OT	NA	12/10	HKD	147.03	NS	NS	NS
Am Income AT	OT	OT	NA	12/10	HKD	65.26	NS	NS	NS
Am Income AT	US	BD	LUX	12/10	USD	8.42	24.6	30.8	5.4
Am Income B	US	BD	LUX	12/10	USD	8.43	23.5	29.7	4.6
Am Income B2	US	BD	LUX	12/10	USD	16.36	23.8	29.8	4.6
Am Income B2	OT	OT	NA	12/10	HKD	126.80	NS	NS	NS
Am Income BT	OT	OT	NA	12/10	HKD	65.65	NS	NS	NS
Am Income BT	US	BD	LUX	12/10	USD	8.47	23.9	30.0	4.6
Am Income C	US	BD	LUX	12/10	USD	8.43	23.8	30.1	4.9
Am Income C2	US	BD	LUX	12/10	USD	24.32	24.1	30.1	4.9
Am Income I	US	BD	LUX	12/10	USD	8.43	25.1	31.6	6.0
Am Value A	US	EQ	LUX	12/10	USD	8.47	17.5	23.3	-16.1
Am Value B	US	EQ	LUX	12/10	USD	7.80	16.2	22.1	-16.9
Am Value C	US	EQ	LUX	12/10	USD	8.47	16.8	22.8	-16.4
Am Value I	US	EQ	LUX	12/10	USD	9.11	18.3	24.3	-15.4
Emg Mkts Debt A	GL	BD	LUX	12/10	USD	15.54	43.3	51.6	7.3
Emg Mkts Debt A2	GL	BD	LUX	12/10	USD	20.01	43.8	51.7	7.4
Emg Mkts Debt AT	GL	BD	LUX	12/10	USD	15.60	43.7	51.8	7.4
Emg Mkts Debt B	GL	BD	LUX	12/10	USD	15.54	42.1	50.2	6.3
Emg Mkts Debt B2	GL	BD	LUX	12/10	USD	19.28	42.4	50.3	6.3
Emg Mkts Debt BT	GL	BD	LUX	12/10	USD	15.59	42.4	50.3	6.4
Emg Mkts Debt C	GL	BD	LUX	12/10	USD	15.54	42.7	51.0	6.9
Emg Mkts Debt C2	GL	BD	LUX	12/10	USD	19.66	43.1	51.0	6.9
Emg Mkts Debt I	GL	BD	LUX	12/10	USD	15.54	44.0	52.4	7.9
Emg Mkts Growth A	GL	EQ	LUX	12/10	USD	33.79	68.6	69.7	-16.3
Emg Mkts Growth B	GL	EQ	LUX	12/10	USD	28.66	67.1	68.1	-17.1
Emg Mkts Growth C	GL	EQ	LUX	12/10	USD	29.30	67.9	69.0	-16.7
Emg Mkts Growth I	GL	EQ	LUX	12/10	USD	37.44	69.9	71.0	-15.6
Eur Growth A	OT	OT	LUX	12/10	USD	9.85	20.1	18.4	-20.7
Eur Growth A	OT	OT	LUX	12/10	EUR	6.69	20.1	18.4	-20.7
Eur Growth B	OT	OT	LUX	12/10	EUR	6.02	19.0	17.3	-21.5
Eur Growth B	OT	OT	LUX	12/10	USD	8.87	19.0	17.3	-21.5
Eur Growth C	EU	EQ	LUX	12/10	EUR	5.07	19.6	17.9	-21.0
Eur Growth I	OT	OT	LUX	12/10	USD	10.74	20.9	19.5	-20.1
Eur Growth I	OT	OT	LUX	12/10	EUR	7.29	20.9	19.5	-20.1
Eur Income A	OT	OT	LUX	12/10	EUR	6.61	39.1	37.5	3.8
Eur Income A	OT	OT	LUX	12/10	USD	9.73	39.1	37.5	3.8
Eur Income A2	OT	OT	LUX	12/10	EUR	12.84	39.4	37.5	3.8
Eur Income A2	OT	OT	LUX	12/10	USD	18.91	39.4	37.5	3.8
Eur Income AT	EU	BD	LUX	12/10	EUR	6.60	39.2	37.3	3.8
Eur Income B	OT	OT	LUX	12/10	EUR	6.61	38.3	36.6	3.1
Eur Income B	OT	OT	LUX	12/10	USD	9.73	38.3	36.6	3.1
Eur Income B2	OT	OT	LUX	12/10	EUR	11.94	38.4	36.5	3.1
Eur Income B2	OT	OT	LUX	12/10	USD	17.58	38.4	36.5	3.1
Eur Income BT	EU	BD	LUX	12/10	EUR	6.61	38.6	36.7	3.1
Eur Income C	OT	OT	LUX	12/10	EUR	6.61	38.6	37.0	3.4
Eur Income C	OT	OT	LUX	12/10	USD	9.73	38.6	37.0	3.4
Eur Income C2	OT	OT	LUX	12/10	EUR	12.80	38.8	36.9	3.4
Eur Income C2	OT	OT	LUX	12/10	USD	18.85	38.8	36.9	3.4
Eur Income I	OT	OT	LUX	12/10	EUR	6.61	39.7	38.2	4.4
Eur Income I	OT	OT	LUX	12/10	USD	9.73	39.7	38.2	4.4
Eur Strat Value A	OT	OT	LUX	12/10	EUR	8.23	18.2	12.9	-24.4
Eur Strat Value A	OT	OT	LUX	12/10	USD	12.12	18.2	12.9	-24.4
Eur Strat Value I	OT	OT	LUX	12/10	EUR	8.42	19.1	13.8	-23.7
Eur Strat Value I	OT	OT	LUX	12/10	USD	12.40	19.1	13.8	-23.7
Eur Value A	OT	OT	LUX	12/10	USD	13.06	21.8	17.2	-21.5
Eur Value A	OT	OT	LUX	12/10	EUR	8.87	21.8	17.2	-21.5
Eur Value B	OT	OT	LUX	12/10	EUR	8.17	20.7	16.1	-22.2
Eur Value B	OT	OT	LUX	12/10	USD	12.03	20.7	16.1	-22.2
Eur Value C	OT	OT	LUX	12/10	USD	12.64	21.2	16.6	-21.8
Eur Value C	OT	OT	LUX	12/10	EUR	8.58	21.2	16.6	-21.8
Eur Value I	OT	OT	LUX	12/10	USD	15.08	22.6	18.1	-20.8
Eur Value I	OT	OT	LUX	12/10	EUR	10.24	22.6	18.1	-20.8
Gl Balanced (Euro) A	OT	OT	LUX	12/10	USD	16.64	19.2	19.1	-12.8
Gl Balanced (Euro) B	OT	OT	LUX	12/10	USD	16.23	18.1	17.9	-13.6
Gl Balanced (Euro) C	OT	OT	LUX	12/10	USD	16.52	19.0	18.7	-13.0
Gl Balanced (Euro) I	OT	OT	LUX	12/10	USD	16.94	NS	NS	NS
Gl Balanced A	US	BA	LUX	12/10	USD	16.41	23.5	25.7	-11.9
Gl Balanced B	US	BA	LUX	12/10	USD	15.62	22.4	24.5	-12.8
Gl Balanced C	OT	OT	LUX	12/10	USD	16.17	23.2	25.3	-12.2
Gl Balanced C	OT	OT	LUX	12/10	EUR	10.98	23.2	25.3	-12.2
Gl Balanced I	US	BA	LUX	12/10	USD	17.02	24.3	26.5	-11.3
Gl Bond A	US	BD	LUX	12/10	USD	9.32	13.2	16.1	5.0
Gl Bond A2	US	BD	LUX	12/10	USD	16.11	13.4	16.1	5.0
Gl Bond A2	OT	OT	NA	12/10	HKD	124.86	13.4	16.1	5.0
Gl Bond AT	OT	OT	LUX	12/10	HKD	72.16	13.4	16.0	5.0
Gl Bond AT	US	BD	LUX	12/10	USD	9.31	13.4	16.0	5.0
Gl Bond B	US	BD	LUX	12/10	USD	9.32	12.2	15.0	4.0
Gl Bond B2	US	BD	LUX	12/10	USD	14.12	12.3	14.9	3.9
Gl Bond B2	OT	OT	NA	12/10	HKD	109.44	12.3	14.9	3.9
Gl Bond BT	OT	OT	LUX	12/10	HKD	72.47	12.3	14.9	4.0
Gl Bond BT	US	BD	LUX	12/10	USD	9.35	12.3	14.9	4.0
Gl Bond C	US	BD	LUX	12/10	USD	9.32	12.8	15.6	4.5
Gl Bond C2	US	BD	LUX	12/10	USD	13.99	12.9	15.6	4.5
Gl Bond I	US	BD	LUX	12/10	USD	9.32	13.8	16.7	5.6
Gl Conservative A	US	BA	LUX	12/10	USD	14.87	15.4	17.5	-4.9
Gl Conservative A2	US	BA	LUX	12/10	USD	16.93	16.1	18.1	-4.6
Gl Conservative B	US	BA	LUX	12/10	USD	14.87	14.6	16.6	-5.7
Gl Conservative B2	US	BA	LUX	12/10	USD	16.09	15.0	16.9	-5.6
Gl Conservative C	US	BA	LUX	12/10	USD	14.86	15.0	17.0	-5.3
Gl Conservative C2	US	BA	LUX	12/10	USD	16.56	15.6	17.6	-5.0
Gl Conservative I	US	BA	LUX	12/10	USD	14.93	16.2	18.3	-4.2
Gl Eq Blend A	GL	EQ	LUX	12/10	USD	11.54	29.1	31.0	-23.2
Gl Eq Blend B	GL	EQ	LUX	12/10	USD	10.83	27.9	29.5	-23.9
Gl Eq Blend C	GL	EQ	LUX	12/10	USD	11.33	28.5	30.2	-23.5
Gl Eq Blend I	GL	EQ	LUX	12/10	USD	12.16	30.1	31.9	-22.5
Gl Growth A	GL	EQ	LUX	12/10	USD	41.29	28.0	29.1	-24.1
Gl Growth B	GL	EQ	LUX	12/10	USD	34.49	26.8	27.8	-24.8
Gl Growth C	GL	EQ	LUX	12/10	USD	39.63	27.5	28.5	-24.4
Gl Growth I	GL	EQ	LUX	12/10	USD	45.83	29.0	30.2	-23.4
Gl High Yield A	US	BD	LUX	12/10	USD	4.27	57.3	64.4	3.1
Gl High Yield A2	US	BD	LUX	12/10	USD	9.08	57.6	63.9	3.1
Gl High Yield A2	OT	OT	NA	12/10	HKD	70.38	57.6	63.9	3.1
Gl High Yield AT	OT	OT	NA	12/10	HKD	32.79	57.9	64.0	3.0
Gl High Yield AT	US	BD	LUX	12/10	USD	4.23	57.9	64.0	3.0
Gl High Yield B	US	BD	LUX	12/10	USD	4.27	55.5	62.2	1.9
Gl High Yield B2	US	BD	LUX	12/10	USD	14.61	56.3	62.3	2.0
Gl High Yield B2	OT	OT	NA	12/10	HKD	113.24	56.3	62.3	2.0
Gl High Yield BT	OT	OT	NA	12/10	HKD	33.33	56.0	62.2	2.0
Gl High Yield BT	US	BD	LUX	12/10	USD	4.30	56.0	62.2	2.0
Gl High Yield C	US	BD	LUX	12/10	USD	4.27	56.5	63.5	2.6
Gl High Yield C2	US	BD	LUX	12/10	USD	13.47	57.2	63.3	2.6
Gl High Yield I	US	BD	LUX	12/10	USD	4.27	58.3	65.6	3.8
Gl Thematic Res. A	OT	OT	LUX	12/10	USD	14.51	65.8	70.3	-7.4
Gl Thematic Res. B	OT	OT	LUX	12/10	USD	12.70	64.3	68.7	-8.3
Gl Thematic Res. I	OT	OT	LUX	12/10	USD	16.17	67.0	71.7	-6.7
Gl Value A	GL	EQ	LUX	12/10	USD	11.06	30.3	32.9	-22.3
Gl Value B	GL	EQ	LUX	12/10	USD	10.17	29.1	31.6	-23.1
Gl Value C	GL	EQ	LUX	12/10	USD	10.75	29.7	32.2	-22.7
Gl Value I	GL	EQ	LUX	12/10	USD	11.75	31.1	33.8	-21.7
Greater China A	AS	EQ	LUX	12/10	USD	39.57	54.3	50.8	-19.2
Greater China B	AS	EQ	LUX	12/10	USD	35.03	52.8	49.2	-20.0
Greater China C	AS	EQ	LUX	12/10	USD	39.08	53.6	50.1	-19.5
India Growth A	OT	OT	LUX	12/10	USD	124.69	NS	NS	NS
India Growth AX	OT	OT	LUX	12/10	USD	108.97	88.6	91.0	-10.2
India Growth B	OT	OT	LUX	12/10	USD	130.70	NS	NS	NS
India Growth BX	OT	OT	LUX	12/10	USD	93.20	86.9	89.1	-11.1
India Growth I	EA	EQ	LUX	12/10	USD	112.90	89.4	91.8	-9.9
Int'l Health Care A	OT	EQ	LUX	12/10	USD	135.80	15.7	22.7	-10.3
Int'l Health Care B	OT	EQ	LUX	12/10	USD	114.61	14.6	21.4	-11.2
Int'l Health Care C	OT	EQ	LUX	12/10	USD	130.18	15.2	22.1	-10.7
Int'l Health Care I	OT	EQ	LUX	12/10	USD	148.30	16.5	23.6	-9.5
Int'l Technology A	OT	EQ	LUX	12/10	USD	106.19	45.2	45.4	-14.3
Int'l Technology B	OT	EQ	LUX	12/10	USD	92.07	43.8	44.0	-15.1
Int'l Technology C	OT	EQ	LUX	12/10	USD	102.65	44.6	44.8	-14.6
Int'l Technology I	OT	EQ	LUX	12/10	USD	119.01	46.3	46.6	-13.6
Japan Eq Blend A	JP	EQ	LUX	12/10	JPY	5782.00	7.8	13.6	-26.6
Japan Eq Blend B	JP	EQ	LUX	12/10	JPY	5582.00	6.7	12.5	-27.4
Japan Eq Blend C	JP	EQ	LUX	12/10	JPY	5690.00	7.3	13.1	-27.0
Japan Growth A	JP	EQ	LUX	12/10	JPY	5660.00	1.7	7.4	-26.9
Japan Growth B	JP	EQ	LUX	12/10	JPY	5465.00	0.8	6.3	-27.6
Japan Growth C	JP	EQ	LUX	12/10	JPY	5571.00	1.3	6.9	-27.2
Japan Strat Value A	JP	EQ	LUX	12/10	JPY	5866.00	13.7	19.8	-26.7
Japan Strat Value B	JP	EQ	LUX	12/10	JPY	5669.00	12.7	18.6	-27.4
Japan Strat Value C	JP	EQ	LUX	12/10	JPY	5770.00	13.2	19.2	-27.0
Real Estate Sec. A	OT	EQ	LUX	12/10	USD	13.99	31.1	37.8	-19.6
Real Estate Sec. B	OT	EQ	LUX	12/10	USD	12.79	29.8	36.4	-20.4
Real Estate Sec. I	OT	EQ	LUX	12/10	USD	15.03	32.1	38.9	-18.9
Short Mat Dollar A	US	BD	LUX	12/10	USD	7.22	10.6	11.4	-6.3
Short Mat Dollar A2	US	BD	LUX	12/10	USD	9.71	10.8	11.4	-6.3
Short Mat Dollar AT	US	BD	LUX	12/10	USD	7.22	11.0	11.4	-6.3
Short Mat Dollar B	US	BD	LUX	12/10	USD	7.22	10.2	10.9	-6.7
Short Mat Dollar B2	US	BD	LUX	12/10	USD	9.66	10.3	10.8	-6.8
Short Mat Dollar BT	OT	OT	LUX	12/10	USD	7.23	9.7	10.2	-7.0
Short Mat Dollar C	US	BD	LUX	12/10	USD	7.22	10.2	10.9	-6.7
Short Mat Dollar C2	US	BD	LUX	12/10	USD	13.66	10.3	10.8	-6.8
Short Mat Dollar I	US	BD	LUX	12/10	USD	7.22	11.2	12.0	-5.7

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	10/30	USD	1642.69	69.6	71.6	NS

■ CREDIT PACIFIC ASSET MANAGMENT
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CPS-Master Priv Fund	GL	OT	WSM	12/07	USD	120.56	20.6	20.4	9.8

PLATINUM CAPITAL MANAGEMENT

■ PLATINUM CAPITAL MANAGEMENT
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Platinm-All Star	OT	OT	CYM	09/30	USD	94.24	12.2	-6.9	-12.2
Platinm-All Weather	OT	OT	USA	10/31	USD	129.92	2.4	3.2	3.8
Platinm-Dynasty	OT	OT	USA	10/30	USD	108.45	5.5	2.5	-34.0
Platinm-Emancipation	OT	OT	USA	10/30	USD	93.58	25.0	9.3	-11.3
Platinm-Equity Plus	OT	OT	USA	05/29	USD	35.02	-18.2	-63.7	-45.6
Platinm-Gbl Dividend	OT	OT	CYM	09/30	USD	59.71	27.4	-18.1	-32.3
Platinm-Nordic	OT	OT	CYM	09/30	SEK	591.49	8.4	-6.2	-19.0
Platinm-Premier	OT	OT	CYM	12/31	USD	21.20	-55.9	-66.0	-44.3
Platinm-Turnberry	OT	OT	USA	10/30	USD	56.60	NS	NS	-38.7

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
Superfund Cayman*	OT	OT	CYM	12/08	USD	43.91	-47.3	-46.5	-2.8
Superfund GCT USD*	GL	EQ	LUX	12/08	USD	2335.00	-36.1	-36.1	-0.6
Superfund Green Gold A (SPC)	OT	OT	CYM	12/08	USD	1049.12	-9.8	0.1	12.5
Superfund Green Gold B (SPC)	OT	OT	CYM	12/08	USD	1033.53	-23.3	-15.4	9.4
Superfund Q-AG*	OT	OT	AUT	12/08	EUR	6761.00	-22.9	-22.5	3.2

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Winton Evolution EUR Cls H	OT	OT	CYM	11/30	EUR	972.73	NS	NS	NS
Winton Evolution GBP Cls G	OT	OT	CYM	11/30	GBP	976.73	NS	NS	NS
Winton Evolution USD Cls F	OT	OT	CYM	11/30	USD	1232.74	-2.8	-1.2	3.7
Winton Futures EUR Cls C	OT	OT	VGB	11/30	EUR	202.11	-1.8	-0.1	9.2
Winton Futures GBP Cls D	OT	OT	VGB	11/30	GBP	218.35	-1.6	0.4	10.2
Winton Futures JPY Cls E	OT	OT	VGB	11/30	JPY	14398.02	-2.4	-0.4	6.9
Winton Futures USD Cls B	OT	OT	VGB	11/30	USD	716.94	-2.2	-0.2	8.9

Allianz Global Investors

■ ALLIANZ GLOBAL INVESTORS KAPITALANLAGEGESELLSCHAFT

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
Concentra AE	EU	EQ	DEU	12/11	EUR	50.79	28.7	33.0	-13.9
Industria AE	EU	EQ	DEU	12/11	EUR	69.85	32.1	29.0	-18.9
InternRent AE	EU	BD	DEU	12/11	EUR	35.32	4.5	1.2	10.1

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INTERNATIONAL INVESTOR

Fed may put lid on yields

It should repeat that rates will stay low for an 'extended period'

By Emily Barrett

U.S. CREDIT MARKETS

The U.S. Federal Reserve's last policy meeting for 2009 this week offers the government bond market its best opportunity to stabilize after recent declines.

A reiteration of the central bank's commitment to keep rates low for an "extended period" could be what the Treasury market needs to keep a lid on rising yields into the year-end. Those upward pressures will increase in the new year, as the Treasury has to raise record-breaking amounts of debt—targeting $1.4 trillion in the fiscal year to September 2010—to cover the massive budget shortfalls. The $118 billion it plans to raise in the last week of December already threatens to push prices, which move inversely to yields, to the weakest levels for 2009.

The benchmark 10-year yield has risen since the start of December, when it stood at 3.21%. Friday, it briefly crossed a key threshold at 3.560%, ending the day at 3.540%.

Larry Milstein, head of U.S. government and agency trading at R.W. Pressprich & Co, said the next "magnetic level" is 3.75%, though he doesn't think the yield will get there just yet, given the frail economic outlook. "I do still think we're going to see some support here, but the question is who's still around," he said, referring to the thin trading around the holidays.

The market's best support of late has come from the central bank's consistent pledge to keep its target interest rate low for an extended period, and policy makers are unlikely to revise that message in Wednesday's statement following their two-day meeting. But they will have to acknowledge this month's surprising economic updates, which suggest a turnaround is coming for the labor markets and consumer spending. If that is true, the U.S. economy will soon regain two of its biggest forces for a sustainable recovery.

Upward pressures on yields will increase in the new year, as the U.S. Treasury is targeting a record $1.4 billion of debt sales in the fiscal year ending in September.

The data are still far too weak to call the Fed to action, either to raise the target rate from the zero to 0.25% range held for the past year, or to hasten the withdrawal of the special lending and purchase programs that have assisted financial markets through nearly two years of crisis.

The latest comments from Fed Chairman Ben Bernanke reinforce this, focusing on the point that, even if the unemployment rate peaked in October, the current 10% rate is still too high and will probably subside more slowly than anyone would like.

"Can you imagine, even if the Fed raised rates with unemployment at 9%, what they'd do to Bernanke on the Hill?" said Chris Diaz, co-manager of the $247 million ING Global Bond Fund. He doesn't expect any change in the Fed's language this week.

Nevertheless, stronger data of late prompted both J.P. Morgan Chase and Credit Suisse to raise their 2010 growth forecasts to 4.5% from 3.5% Friday.

Mr. Diaz said, "As more data comes in above consensus, the more pressure will be on the Fed" to reassert its inflation-fighting credibility.

That doesn't mean this week's consumer-price-inflation data are likely to contain any nasty surprises: the October increase was a measly 0.3%.

Inflation isn't a pressing concern in an economy still struggling with reams of underutilized resources. Consumers in December's Reuters/University of Michigan survey drastically scaled back their projections for their cost of living, to 2.1% over the next year, from 2.7% in November.

But the still-uncertain course of the economic recovery means cost pressures could emerge at any time, and develop rapidly under such loose monetary conditions.

Dollar will be watching for signals from the Fed

By Don Curren

CURRENCY MARKETS

The dollar is likely to build on recent gains this week amid optimism the U.S. economy may pick up enough steam to prompt the Federal Reserve to raise interest rates sooner than many expected.

Any further gains may hinge on comments out of the Fed when it makes its policy statement Wednesday. The Fed isn't expected to raise interest rates, but some investors are betting it could respond to strong data by signaling the beginning of an end to current extremely stimulative conditions.

"I do think the market's overplaying the risk of the Fed being more hawkish," said Shaun Osborne, chief currency strategist at TD Securities in Toronto.

"I don't think they'll be influenced by one month or even two months of slightly better-than-expected data."

Vassili Serebriakov, currency strategist at Wells Fargo in New York, said he expects the Fed to keep the reference to rates being exceptionally low for "an extended period" in its statement Wednesday.

Analysts anticipate the dollar will move higher against the euro, at least in the early part of week, and stay in a range between $1.4500 and $1.4900. They see the dollar moving between 86 yen and 90 yen.

Late Friday afternoon in New York, the euro was at a two-month low at $1.4629 from $1.4729 late Thursday. The dollar was at 89.06 yen from 88.21, while the euro was at 130.29 yen from 129.94. The U.K. pound was at $1.6242 from $1.6274. The dollar was at 1.0341 Swiss francs from 1.0262 francs.

Another factor that could impinge on currency trading next week is the tendency for trading flows to ebb as the year-end period approaches. That diminished liquidity could result in some erratic price action, analysts said.

"The theme will be a continued decline in liquidity and volume in the foreign-exchange market as professional players and investment managers begin closing their books in earnest," said Michael Woolfolk, senior currency strategist at the Bank of New York Mellon. "Consequently, currency prices are more susceptible to surprises in the marketplace," he said.

Currency markets have undergone some big changes recently, with the dollar finally kicking back against the euro after strong U.S. November jobs data were released on Dec. 4.

There are also a number of significant data releases in the U.S. this week that will influence sentiment toward the dollar. They include the December Empire State manufacturing survey on Tuesday and the Philadelphia Fed index for the same month on Thursday, Treasury International Capital Flows data for October on Tuesday and third-quarter current account data on Wednesday.

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
CAM-GTF Limited	AS	EQ	MUS	12/04	USD	258874.38	91.9	110.6	-0.5

GAM

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Tel +3531 609 3927 Fax +3531 611 7941, Internet: www.gam.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
GAM Arbitrage Op	OT	OT	VGB	12/04	USD	1233.43	21.7	14.0	-9.3
GAM Asia Eq Hdg JPY Op	GL	EQ	VGB	12/07	JPY	15580.19	66.2	79.9	0.6
GAM Asia Equity Hedge US	OT	OT	VGB	12/07	USD	291.41	67.0	82.5	2.2
GAM Asia Equity USD	OT	OT	VGB	12/10	USD	644.08	60.4	62.9	-14.8
GAM Asia-Pacific Eq USD	OT	OT	VGB	12/08	USD	1280.08	19.2	36.9	-17.3
GAM Com Glb Bal EUR Op	US	BA	VGB	12/07	EUR	92.97	15.3	19.6	-9.4
GAM Com Glb Bal USD Op	US	BA	VGB	12/07	USD	127.88	15.3	19.6	-9.4
GAM Comp Glb Eq EUR Op	GL	EQ	VGB	12/07	EUR	94.77	21.9	29.7	-16.5
GAM Comp Glb Eq USD Op	GL	EQ	VGB	12/07	USD	127.33	21.9	29.7	-16.5
GAM Comp Glb Gr EUR Op	US	BA	VGB	12/07	EUR	83.61	15.6	21.5	-13.7
GAM Comp Glb Gr USD Op	US	BA	VGB	12/07	USD	126.97	15.6	21.5	-13.7
GAM CompAbsRT EUR Op	OT	OT	VGB	09/30	EUR	141.71	9.1	0.1	-6.9
GAM CompAbsRT SGD Op	OT	OT	VGB	09/30	SGD	102.21	9.2	-0.1	-8.3
GAM CompAbsRT USD Op	OT	OT	VGB	09/30	USD	845.66	9.5	0.7	-7.0
GAM Cptal Apprec Eq Inc	US	EQ	VGB	12/04	USD	243.82	33.9	40.2	-13.2
GAM Cross Trading Inc	OT	OT	VGB	12/07	USD	465.16	6.3	6.6	6.6
GAM Diversity CHF Op	OT	OT	VGB	12/07	CHF	94.62	4.6	3.3	-6.8
GAM Diversity EUR Op	OT	OT	VGB	12/07	EUR	650.56	5.4	4.6	-5.2
GAM Diversity USD 2.5XL	OT	OT	VGB	12/07	USD	78.98	9.5	7.4	-19.6
GAM Diversity USD Op	OT	OT	VGB	12/07	USD	683.10	5.4	4.4	-5.7
GAM Dvrsty II CHF Op	OT	OT	VGB	12/07	CHF	99.92	4.4	3.0	-6.5
GAM Dvrsty II EUR Op	OT	OT	VGB	12/07	EUR	139.30	5.0	3.6	-5.3
GAM Dvrsty II USD Op	OT	OT	VGB	12/07	USD	211.02	5.0	3.8	-5.6
GAM DvrstyIII EUR Op	OT	OT	VGB	12/07	EUR	116.03	5.0	3.4	-5.4
GAM DvrstyIII USD Op	OT	OT	VGB	12/07	USD	122.48	5.0	3.5	-5.6
GAM Euro Eq Hdg EUR Op	EU	EQ	VGB	12/07	EUR	213.61	8.3	9.0	-5.9
GAM Euro Eq Hdg USD Op	OT	OT	VGB	12/07	USD	198.73	9.1	12.9	-4.3
GAM European Equity USD	OT	OT	VGB	12/09	USD	290.48	23.5	28.5	-16.0
GAM GAMCO	OT	EQ	VGB	12/08	USD	793.73	36.8	52.0	-12.4
GAM Gb EmMkts Hdg EUROp	OT	OT	VGB	12/07	EUR	98.44	14.1	14.5	-16.2
GAM Gb EmMkts Hdg USDOp	OT	OT	VGB	12/07	USD	103.77	14.6	14.9	-15.5
GAM Gbl Divers USD Inc.	GL	EQ	VGB	12/07	USD	251.73	23.3	32.4	-8.7
GAM Grtr China Eq Hdg Op	GL	EQ	VGB	12/07	USD	290.16	103.2	124.4	20.4
GAM Intrst Trend II	GL	BD	VGB	12/07	USD	93.98	42.2	36.9	-8.0
GAM Intrst Trend Inc	OT	OT	VGB	12/07	USD	249.93	56.9	52.1	-6.6
GAM Japan Eq Hdg EUR Op	AS	EQ	VGB	12/07	EUR	115.99	8.6	9.4	-9.1
GAM Japan Eq Hdg USD Op	OT	OT	VGB	12/07	USD	121.28	7.8	14.3	-20.3
GAM Japan Eq Hdg YEN Open	AS	EQ	VGB	12/07	JPY	8343.78	8.2	14.7	-20.1
GAM Japan USD	JP	EQ	VGB	12/10	USD	1071.17	3.5	10.9	-19.9
GAM Japan YEN	JP	EQ	VGB	12/10	JPY	8375.97	4.6	9.9	-27.1
GAM Money Mkt EuroOp	EU	MM	VGB	12/09	EUR	51.19	0.1	0.2	1.8
GAM Money Mkt USD	US	MM	VGB	12/09	USD	99.98	0.0	0.0	0.9
GAM Multi-Arb EUR Op	OT	OT	VGB	12/07	EUR	113.69	1.4	-0.9	-8.4
GAM Multi-Arb USD Op	OT	OT	VGB	12/07	USD	118.72	1.7	-0.7	-8.7
GAM Multi-China EUR Op	OT	OT	VGB	12/07	EUR	168.17	13.2	13.5	-8.5
GAM Multi-China USD Op	OT	OT	VGB	12/07	USD	176.80	13.8	14.1	-9.4
GAM Multi-Emer Mkts GBP	OT	OT	VGB	12/07	GBP	130.40	24.7	23.2	-2.3
GAM Multi-Emer Mkts USD	OT	OT	VGB	12/07	USD	645.81	24.6	23.2	-2.7
GAM Multi-Eur EUR Op	OT	OT	VGB	12/07	EUR	269.11	7.2	6.3	-9.9
GAM Multi-Eur II EUR Op	OT	OT	VGB	12/07	EUR	138.47	7.2	6.2	-10.0
GAM Multi-Eur II USD Op	OT	OT	VGB	12/07	USD	113.24	6.8	5.8	-10.9
GAM Multi-Eur USD Op	OT	OT	VGB	12/07	USD	468.44	6.9	6.0	-10.8
GAM Multi-Nth Am EUR Special	OT	OT	VGB	12/07	EUR	132.75	11.4	11.2	-4.3
GAM Multi-Nth Am USD Special	OT	OT	VGB	12/07	USD	216.32	11.8	11.9	-4.3
GAM Multi-Pac EUR Op	GL	EQ	VGB	12/07	EUR	142.87	4.8	4.6	-4.5
GAM Multi-Pac USD Op	OT	OT	VGB	12/07	USD	164.92	4.9	4.9	-4.8
GAM Portable Dvr/S&P500	OT	OT	VGB	08/24	USD	70.11	17.7	-27.7	-22.9
GAM Selection Hdg	US	EQ	VGB	12/04	USD	2554.68	64.2	64.9	9.2
GAM Sing/Malaysia	AS	EQ	VGB	12/10	USD	2519.50	51.7	50.5	-11.7
GAM Sterling Spe Bd Inc	OT	OT	VGB	12/07	GBP	241.71	39.9	39.8	2.1
GAM Trading EUR Inc	OT	OT	VGB	12/07	EUR	324.66	6.2	6.0	7.2
GAM Trading USD Inc	OT	OT	VGB	12/07	USD	971.52	6.4	6.7	6.7
GAM Trdg II IncEUR Op	OT	OT	VGB	12/07	EUR	138.89	6.1	6.3	7.2
GAM Trdg II IncUSD Op	OT	OT	VGB	12/07	USD	315.45	6.4	6.7	6.7
GAM Trdg IV IncEUR Op	OT	OT	VGB	12/07	EUR	146.55	5.9	5.6	6.8
GAM Trdg IV IncUSD Op	OT	OT	VGB	12/07	USD	154.28	6.1	6.1	6.6
GAM Trdg V IncEUR Op	OT	OT	VGB	12/07	EUR	124.26	5.9	5.4	6.7
GAM Trdg V IncUSD Op	OT	OT	VGB	12/07	USD	129.39	6.0	6.0	6.5
GAM TrdgIII IncEUR Op	OT	OT	VGB	12/07	EUR	156.72	6.0	6.0	6.9
GAM TrdgIII IncUSD Op	OT	OT	VGB	12/07	USD	162.25	6.1	6.5	6.6
GAM USDSpecBondInc	US	BD	VGB	12/07	USD	516.87	70.0	70.6	5.8
GAM Worldwide	GL	EQ	VGB	12/09	USD	2211.01	23.4	27.2	-12.0
GAMut Investments	OT	OT	VGB	12/02	USD	7697.06	6.0	7.5	8.6

■ GAM Star Fund Plc

GAMStar-AsEqCHF Ord Ac	AS	EQ	IRL	12/10	CHF	10.73	51.6	36.3	-18.8
GAMStar-AsEqEUR Ord Ac	AS	EQ	IRL	12/10	EUR	11.36	52.0	43.1	-14.1
GAMStar-AsEqGBP Ord Ac	AS	EQ	IRL	12/10	GBP	1.53	44.2	47.3	-3.5
GAMStar-AsEqUSD Ord Ac	AS	EQ	IRL	12/10	USD	13.17	60.6	62.4	-13.8
GAMStar-AsPacEqEUR Acc	AS	EQ	IRL	12/10	EUR	96.72	14.4	14.3	-17.8
GAMStar-AsPacEqEUR Inc	AS	EQ	IRL	12/10	EUR	93.61	14.4	14.3	-17.8
GAMStar-ContEurEqEUR Ac	EU	EQ	IRL	12/09	EUR	10.43	18.5	16.3	-14.3
GAMStar-EurpEqEUR Acc	EU	EQ	IRL	12/10	EUR	175.26	19.7	16.2	-16.5
GAMStar-EurpEqEUR Inc	EU	EQ	IRL	12/10	EUR	160.14	19.6	16.2	-16.5
GAMStar-EurpEqUSD Acc	EU	EQ	IRL	12/10	USD	15.75	26.2	31.6	-16.1
GAMStar-EurpEqUSD Inc	EU	EQ	IRL	12/10	USD	14.28	26.1	31.6	-16.1
GAMStar-FrontierOppUSD Acc	GL	EQ	IRL	12/09	USD	5.26	11.9	7.8	NS
GAMStar-JpnEq EUR Acc	JP	EQ	IRL	12/09	EUR	85.81	5.4	7.9	-16.8
GAMStar-JpnEq EUR Inc	JP	EQ	IRL	12/09	EUR	85.82	5.4	7.9	-16.8
GAMStar-JpnEq JPY Acc	JP	EQ	IRL	12/09	JPY	888.00	5.9	14.5	-26.4
GAMStar-JpnEq USD Acc	JP	EQ	IRL	12/09	USD	11.00	4.5	14.8	-19.3
GAMStar-World EqUSD Acc	GL	EQ	IRL	12/09	USD	2188.91	24.4	28.2	-11.5

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EFG-Hermes Egypt	GL	EQ	BMU	11/30	USD	37.39	8.1	17.6	-22.2
EFG-Hermes MEDA*	GL	EQ	BMU	11/30	USD	22.90	9.3	18.7	-18.4
EFG-Hermes Saudi Arabia Equity	EA	EQ	SAU	12/08	SAR	5.90	NS	NS	NS
EFG-Hermes Telecom	OT	EQ	BMU	11/30	USD	28.65	11.7	14.1	-13.0

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LG Antenna	GL	EQ	BMU	12/04	USD	59.94	75.6	87.3	-10.0
LG Asian Plus	AS	EQ	CYM	12/04	USD	56.80	50.3	59.5	-19.1
LG AsianSmallerCo's	AS	EQ	BMU	12/10	USD	95.53	73.2	79.7	-23.0
LG India	EA	EQ	MUS	12/03	USD	65.04	103.8	126.6	-13.6

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American Growth	US	EQ	LUX	12/10	USD	14.71	22.6	24.7	-14.9
American Growth AA	US	EQ	LUX	12/10	USD	0.85	22.3	24.4	-7.9
Asian Equity	AS	EQ	LUX	12/10	USD	2.40	60.7	63.4	-11.3
Asian Equity AA	AS	EQ	LUX	12/10	USD	0.78	60.2	62.9	-11.6
Asian Sm Cap Equity AA	AS	EQ	LUX	12/10	USD	1.15	90.4	99.8	-6.3
China Value A	AS	EQ	LUX	12/10	USD	7.03	62.8	64.6	-8.5
China Value AA	AS	EQ	LUX	12/10	USD	2.21	62.4	64.2	-8.7
Dragon Growth	AS	EQ	LUX	12/10	USD	1.63	66.3	62.4	-10.8
Dragon Growth AA	OT	OT	LUX	12/10	HKD	7.93	66.1	62.0	-12.0
Emg Eastrn Europe A	EU	EQ	LUX	12/10	USD	4.39	86.1	84.4	-21.5
Emg Eastrn Europe AA	EU	EQ	LUX	12/10	USD	1.89	85.9	84.1	-21.6
European Growth	EU	EQ	LUX	12/10	USD	9.01	40.1	46.3	-20.0
European Growth AA	EU	EQ	LUX	12/10	USD	0.64	39.8	45.9	-20.2
Global Contrarain AA	GL	EQ	LUX	12/10	USD	0.86	78.7	96.9	NS
Global Property AA	OT	EQ	LUX	12/10	USD	0.66	43.2	47.8	-17.9
Global Resources AA	OT	EQ	LUX	12/10	USD	1.07	51.8	75.6	-12.7
Healthcare AA	OT	EQ	LUX	12/10	USD	0.92	11.5	18.5	NS
India Equity AA	EA	EQ	LUX	12/10	USD	1.08	77.7	81.0	-18.9
International Growth	GL	EQ	LUX	12/10	USD	2.98	19.8	23.4	-17.6
International Growth AA	GL	EQ	LUX	12/10	USD	0.69	19.5	23.1	-17.8
Japanese Growth	JP	EQ	LUX	12/10	USD	2.75	6.4	14.0	-16.3
Japanese Growth AA	JP	EQ	LUX	12/10	USD	0.72	6.1	13.7	-14.8
Latin America Equity AA	GL	EQ	LUX	12/10	USD	1.27	101.9	107.6	-7.8
MGF Asia Value Dividend Equity Fund	OT	OT	Lux	12/10	USD	1.11	NS	NS	NS
Russia Equity AA	EE	EQ	LUX	12/10	USD	0.61	124.1	112.8	-24.6
Taiwan Equity AA	AS	EQ	LUX	12/10	USD	1.01	73.5	75.6	-2.9
Turkey Equity AA	EE	EQ	LUX	12/10	USD	0.71	94.4	116.5	-17.8
U.S. Bond AA	US	BD	LUX	12/10	USD	1.11	18.1	21.3	7.8
U.S. High Yield Bond AA	US	BD	LUX	12/10	USD	0.78	74.4	76.3	-3.5
U.S. Sm Cap Equity AA	US	EQ	LUX	12/10	USD	0.78	63.1	61.5	-16.4
U.S. Tsy Inf-ProtSec AA	OT	BD	LUX	12/10	USD	1.14	7.8	11.9	3.8

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Indonesian Grth Fund	EA	EQ	CYM	12/02	USD	123.32	113.8	166.8	-3.6

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Asia Value Formula Fd-B	AS	EQ	CYM	12/10	USD	7.90	84.1	82.4	-8.2

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Bonds Eur Hi Yld A	EU	BD	LUX	12/09	EUR	20.35	53.1	54.8	-1.9
Bonds EURO A	EU	BD	LUX	12/09	EUR	41.31	4.6	6.2	5.6
Bonds EUROPE A	EU	BD	LUX	12/10	EUR	39.11	3.4	4.5	4.2
Bonds US OppsCoreplus A	US	BD	LUX	12/09	USD	37.19	17.9	20.6	8.8
Bonds World A	GL	BD	LUX	12/09	USD	43.54	9.3	14.9	8.2
Eq. China A	AS	EQ	LUX	12/10	USD	24.15	61.6	55.2	-16.0
Eq. ConcentratedEuropeA	EU	EQ	LUX	12/09	EUR	25.60	24.3	19.7	-20.3
Eq. Eastern Europe A	EU	EQ	LUX	12/09	EUR	21.32	61.4	45.5	-30.6
Eq. Euroland A	EU	EQ	LUX	12/09	EUR	10.29	12.3	11.4	-23.0
Eq. EurolandCyclclsA	EU	EQ	LUX	12/10	EUR	17.16	24.2	26.3	-17.8
Eq. EurolandFinancialA	OT	EQ	LUX	12/09	EUR	10.91	29.5	21.7	-23.9
Eq. Glbl Emg Cty A	GL	EQ	LUX	12/09	USD	9.49	58.7	69.5	-17.4
Eq. Global A	GL	EQ	LUX	12/09	USD	27.24	29.5	36.5	-16.4
Eq. Global Energy A	OT	EQ	LUX	12/09	USD	17.34	21.6	26.3	-15.5
Eq. Global Technol A	OT	OT	LUX	04/24	USD	4.46	22.1	-29.7	-21.6
Eq. Gold Mines A	OT	EQ	LUX	12/09	USD	31.25	49.4	89.6	2.6
Eq. Pacific A	AS	EQ	LUX	12/10	USD	10.17	59.2	60.7	-15.4
Eq. US Lg Cap Gr A	US	EQ	LUX	12/09	USD	14.93	38.5	39.3	-14.5
Eq. US Rel Val A	US	EQ	LUX	12/09	USD	20.10	29.4	32.4	-17.6
Eq. US Sm Cap Val A	US	EQ	LUX	12/09	USD	15.28	18.1	24.0	-22.6
Money Market EURO A	EU	MM	LUX	12/09	EUR	27.39	1.0	1.2	2.8
Money Market USD A	US	MM	LUX	12/09	USD	15.83	0.5	0.7	1.8

المستثمر الوطني
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TNI Mena Real Estate Fund	OT	OT	BMU	12/03	USD	971.15	3.3	-2.9	-26.5
TNI MENA Special Sits Fund	OT	OT	BMU	11/30	USD	1070.31	10.2	10.3	NS
TNI UAE Blue Chip Fund	OT	OT	ARE	12/03	AED	5.13	11.9	-1.7	-30.7

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Intel-Chin MainInd Foc	AS	EQ	CYM	11/30	USD	29.32	82.8	100.8	0.0
Intel-China Converg*	AS	EQ	CYM	11/30	USD	112.36	84.4	103.2	-1.5
VP Classic - A	AS	EQ	CYM	12/10	USD	185.30	81.8	87.8	-4.0
VP Classic - B	AS	EQ	CYM	12/10	USD	86.39	80.9	86.9	-4.5
VP High Dividend Stk	AS	EQ	CYM	12/07	USD	45.68	83.8	93.8	-1.6

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■ YMR-N Series

YMR-N Growth Fund	OT	OT	IRL	12/10	JPY	8952.00	4.0	4.8	-28.1
YMR-N Small Cap Fund	OT	OT	IRL	12/10	JPY	6769.00	5.5	9.4	-28.0

■ Yuki 77 Series

Yuki 77 General	JP	EQ	IRL	12/11	JPY	5997.00	1.6	2.5	-29.7
Yuki 77 Growth	JP	EQ	IRL	12/11	JPY	5502.00	-7.0	-6.2	-34.7

■ Yuki Chugoku Series

Yuki Chugoku Jpn Gen	JP	EQ	IRL	12/11	JPY	6642.00	6.4	7.1	-26.2
Yuki Chugoku JpnLowP	JP	EQ	IRL	12/11	JPY	7350.00	-10.3	-8.4	-27.2

■ Yuki Hokuyo Japan Series

Yuki Hokuyo Jpn Gen	JP	EQ	IRL	12/11	JPY	4526.00	-0.5	0.0	-29.9
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	12/11	JPY	5146.00	-2.5	-1.8	-23.5
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	12/11	JPY	5003.00	6.3	8.5	-26.1

■ Yuki Mizuho Series

Yuki Mizuho Gen Jpn III	OT	OT	IRL	12/11	JPY	4292.00	1.0	1.2	-33.5
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	12/11	JPY	4508.00	0.4	-0.4	-33.8
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	12/11	JPY	6753.00	10.7	11.0	-28.1
Yuki Mizuho Jpn Gen	OT	OT	IRL	12/11	JPY	8377.00	4.4	5.6	-27.9
Yuki Mizuho Jpn Gro	OT	OT	IRL	12/11	JPY	6226.00	-0.4	0.8	-30.5
Yuki Mizuho Jpn Inc	OT	OT	IRL	12/11	JPY	7430.00	-6.6	-6.1	-26.5
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	12/11	JPY	5035.00	1.0	1.0	-28.6
Yuki Mizuho Jpn LowP	OT	OT	IRL	12/11	JPY	11129.00	-1.8	0.5	-24.1
Yuki Mizuho Jpn PGth	OT	OT	IRL	12/11	JPY	7768.00	1.7	2.2	-32.7
Yuki Mizuho Jpn SmCp	OT	OT	IRL	12/11	JPY	7013.00	14.3	15.5	-28.0
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	12/11	JPY	5501.00	5.9	7.0	-24.8
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	12/11	JPY	2624.00	9.9	10.6	-34.5

■ Yuki Shizuoka Japan Series

Yuki Shizuoka General Japan	JP	EQ	IRL	12/11	JPY	5277.00	3.5	4.7	-28.5

For information about listing your funds, please contact: Carson Wong tel: +852 2831-6481; email: carson.wong@dowjones.com

BLUE CHIPS & BONDS

Major players & benchmarks

At right, a look at the Asia Titans, the biggest and best known companies in Asia. Below, some of the Dow Jones Titans indexes of biggest and most liquid stocks in individual countries and regions

Giants around the world

In U.S.-dollar terms.

Dow Jones Country Titans

	INDEX PERFORMANCE		
	Previous session	Year-to-date	52-week
Brazil	0.68%	**109.1%**	102.7%
Russia	-0.89	**93.3**	91.2
China 88	-0.12	**83.1**	69.7
Turkey	-0.44	**79.4**	92.8
Singapore	0.58	**60.6**	63.2
South Korea	0.06	**50.5**	51.7
Sweden	0.31	**49.0**	49.5
Hong Kong	0.60	**48.9**	45.7
Netherlands	0.71	**35.7**	36.9
Canada	-0.57	**26.1**	32.7
Australia	0.41	**23.9**	31.2
Switzerland	0.05	**22.5**	20.8
South Africa	0.67	**20.8**	25.4
France	0.08	**18.8**	17.8
U.K.	0.29	**18.3**	22.9
Italy	0.18	**18.0**	19.6
Spain	0.39	**14.2**	17.1
Germany	0.83	**14.1**	17.5
Japan	1.84	**5.0**	11.5

Dow Jones Regional Sector Titans

Basic Res	0.73%	**77.2%**	85.0%
Tiger 50*	0.76	**55.5**	56.5
Auto Parts	0.75	**50.9**	52.5
Nordic 30	0.50	**35.8**	34.8
EU Enlarged†	0.69	**31.3**	31.6
Asian 50	0.23	**30.3**	38.6
Global 50	-0.05	**20.0**	21.5
Stoxx 50	0.37	**19.2**	19.4
Euro Stoxx 50	0.39	**16.9**	18.3
Arab 50	0.21	**2.3**	-2.3

*Asia excluding Japan †15 companies from the new EU countries; Cyprus, CzechRepublic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Source: Dow Jones Indexes

Dow Jones Asia Titans: Friday's best and worst...

Company	Country	Industry	Market value, in billions of US$	Previous close, in local currency	STOCK PERFORMANCE Previous session	52-week	Three-year
Mitsubishi	Japan	Industrial Suppliers	$41.7	2,270	**5.34%**	89.2%	1.1%
Panasonic	Japan	Consumer Electronics	29.6	1,280	**4.40**	26.0	-45.5
Mitsui	Japan	Industrial Suppliers	25.6	1,263	**4.04**	57.3	-25.0
Nissan Motor	Japan	Automobiles	36.8	728.00	**3.85**	136.4	-48.4
Shin-Etsu Chml	Japan	Specialty Chemicals	24.2	5,110	**3.44**	31.7	-36.1
Shinhan Financial Grp	South Korea	Banks	$18.6	45,650	**-1.62%**	59.1	-1.6
Mitsubishi UFJ Finl Grp	Japan	Banks	58.8	455.00	**-1.52**	-6.0	-69.7
KB Fncl Group	South Korea	Banks	20.4	61,700	**-1.44**	103.1	-13.3
Sumitomo Mitsui Finl	Japan	Banks	30.6	2,710	**-1.28**	-19.8	-78.0
China Mobile (HK)	Hong Kong	Mobile Telecommunications	180.5	70.35	**-1.05**	-10.4	13.5

...And the rest of Asia's blue chips

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
Sony Japan (Consumer Electronics)	28.7	2,575	**3.41%**	38.4%	-49.0%
Nippon Steel Japan (Iron Steel)	25.4	361.00	**3.14**	26.7	-36.0
POSCO South Korea (Iron Steel)	38.2	586,000	**2.81**	56.3	88.1
Toyota Motor Japan (Automobiles)	132.0	3,750	**2.74**	35.9	-49.2
Honda Motor Japan (Automobiles)	61.5	3,010	**2.73**	56.7	-29.2
Sun Hung Kai Prop Hong Kong (Real Estate Holding Development)	39.1	118.30	**2.51**	91.3	32.0
Taiwan Smcndtr Mfg Taiwan (Semiconductors)	50.4	62.60	**2.12**	50.5	-2.1
JFE Hldgs Japan (Iron Steel)	20.2	3,420	**2.09**	35.7	-40.2
Cheung Kong (Hldgs) Hong Kong (Real Estate Holding Development)	30.0	100.50	**2.03**	28.9	7.6
CNOOC Hong Kong (Exploration Production)	69.6	12.08	**1.51**	67.6	73.1
BHP Billiton Australia (General Mining)	124.2	40.50	**1.35**	40.5	55.7
QBE Ins Grp Australia (Reinsurance)	21.0	22.96	**1.32**	-4.1	-18.4
Mizuho Financial Grp Japan (Banks)	25.0	159.00	**1.27**	-30.7	-81.5
East Japan Railway Japan (Travel Tourism)	27.2	6,080	**1.16**	-6.5	-23.8
Canon Japan (Electronic Office Equipment)	51.7	3,750	**1.08**	44.8	-44.0
Takeda Pharm Japan (Pharmaceuticals)	33.3	3,770	**1.07**	-15.1	-51.6
PetroChina Hong Kong (Integrated Oil Gas)	26.2	9.62	**0.84**	43.4	-7.1
Tokio Marine Japan (Property Casualty Insurance)	22.9	2,600	**0.78**	12.3	-40.1
National Australia Bk Australia (Banks)	53.1	28.21	**0.75**	47.7	-28.8
China Constr Bk Hong Kong (Banks)	198.3	6.84	**0.74**	49.0	60.2

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
Hon Hai Precision Ind Taiwan (Electrical Components Equipment)	37.1	140.00	**0.72%**	151.6%	-2.6%
Tokyo Elec Power Japan (Conventional Electricity)	35.5	2,350	**0.64**	-20.9	-36.8
KDDI Japan (Mobile Telecommunications)	23.9	483,000	**0.63**	-17.2	-39.6
Indl Comm Bk China Hong Kong (Banks)	69.1	6.45	**0.62**	51.1	55.4
RioZim Ltd Australia (General Mining)	38.9	70.18	**0.54**	145.6	14.8
Westfield Grp Australia (Retail REITs)	24.8	11.92	**0.51**	-12.0	-37.9
Nintendo Japan (Toys)	30.8	21,520	**0.28**	-34.8	-26.9
Woodside Petroleum Australia (Exploration Production)	30.6	47.18	**0.21**	42.7	22.1
NTT DoCoMo Japan (Mobile Telecommunications)	62.2	130,600	**0.15**	-22.1	-28.6
Japan Tobacco Japan (Tobacco)	30.6	285,200	**0.04**	-8.3	-52.2
Commonwealth Bk of Australia Australia (Banks)	72.9	52.50	**-0.02**	86.5	9.2
Woolworths Australia (Food Retailers Wholesalers)	30.2	26.83	**-0.07**	7.3	17.1
China Life Ins Hong Kong (Life Insurance)	38.0	39.60	**-0.13**	71.8	92.2
Kansai Elec Power Japan (Conventional Electricity)	22.6	2,120	**-0.24**	-18.0	-31.2
Samsung Elec South Korea (Semiconductors)	99.4	785,000	**-0.38**	68.8	29.1
Seven I Hldgs Japan (Broadline Retailers)	19.6	1,940	**-0.56**	-33.8	-47.3
Hutchison Whampoa Hong Kong (Diversified Industrials)	28.4	51.55	**-0.67**	27.3	-34.1
Nippon T&T Japan (Fixed Line Telecommunications)	54.9	3,710	**-0.80**	-18.6	-38.2
Westpac Bking Australia (Banks)	62.7	23.56	**-0.88**	47.0	-1.0
Aus NZ Bk Australia (Banks)	48.8	21.30	**-0.93**	46.3	-24.9

Sources: Dow Jones Indexes; WSJ Market Data Group

Tracking credit markets & dealmakers

— NOTICE TO READERS —
All statistics published in The Wall Street Journal Asia from markets outside the Asian-Pacific region reflect preliminary data.

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Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	0.34%	0.71%	1.6%	7.7%	7.7%
Event Driven	0.38	1.46	4.5	14.9	14.7
Equity Long/Short	-0.23	-0.14	-1.1	3.1	-3.0

*Estimates as of 12/10/09, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Markit iTraxx Indexes

Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 12/1	0.82	100.82%	0.01%	1.00	0.78	0.86
Eur. High Volatility: 12/1	1.23	98.93	0.01	1.76	1.20	1.42
Europe Crossover: 12/1	4.92	100.32	0.05	6.15	4.87	5.31
Asia ex-Japan IG: 12/1	1.05	99.75	0.01	1.29	0.96	1.10
Japan: 12/1	1.47	97.73	0.01	1.68	0.99	1.32

Note: Data as of December 10

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.

In percentage points

Source: Markit Group

Credit-default swaps: Asian companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Nishimatsu Constr	528	**-17**	-19	41
All Nippon Awys	340	**-10**	-10	26
Daiwa Secs Gp	138	**-9**	-12	11
Orix	360	**-7**	-34	24
KT	76	**-7**	-1	-4
Kawasaki Heavy Inds	160	**-7**	3	58
Wharf Hldgs	84	**-6**	-5	-8
Aeon	158	**-6**	-2	35
Nomura Hldgs	212	**-4**	25	54
Nomura Secs	169	**-4**	10	29

And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Nippon Yusen Kabushiki Kaisha	126	**4**	9	31
Mitsui OSK Lines	130	**4**	10	26
Taisei	389	**4**	2	98
Toshiba	169	**4**	4	-9
Sompo Japan Ins	132	**5**	6	33
Obayashi	216	**6**	-1	63
Marubeni	206	**6**	6	27
Kajima	349	**7**	6	150
Kawasaki Kisen Kaisha	254	**7**	31	101
Mitsui Chems	133	**15**	14	26

Source: Markit Group

Behind Asia's deals: Bank revenue rankings, Asia

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

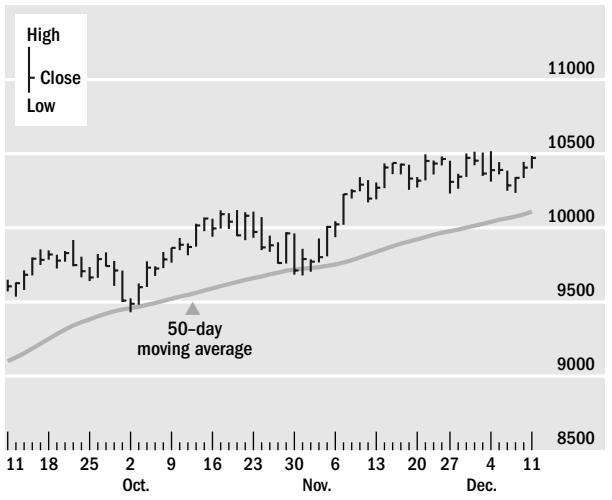
	Revenue, in millions	Market share	PERCENTAGE OF TOTAL REVENUE Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
Nomura	$1,176	13.6%	70%	17%	12%	...
Daiwa Securities SMBC Co Ltd	571	6.6	65	27	8	...
Mizuho	493	5.7	34	44	11	11%
Goldman Sachs	391	4.5	76	10	14	...
UBS	390	4.5	67	12	20	...
Morgan Stanley	381	4.4	68	15	17	...
JPMorgan	362	4.2	76	9	15	...
Citi	353	4.1	52	31	15	2
Mitsubishi UFJ Securities	348	4.0	28	49	11	12

Source: Dealogic

SCANNING THE GLOBE

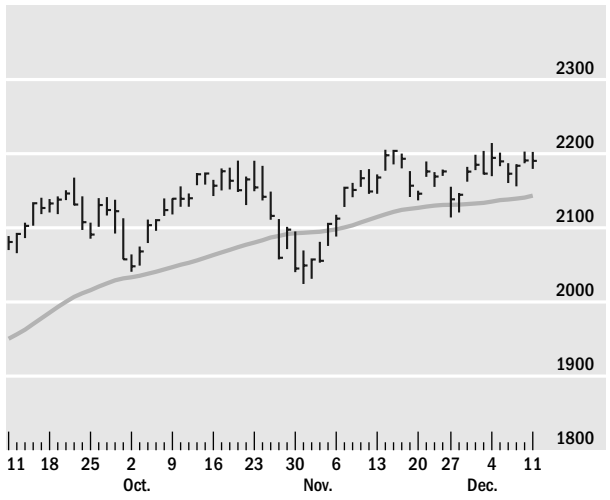
Dow Jones Industrial Average P/E: 18

LAST: **10471.50** ▲ 65.67, or 0.63%
YEAR TO DATE: ▲ **1,695.11, or 19.3%**
OVER 52 WEEKS ▲ **1,841.82, or 21.3%**



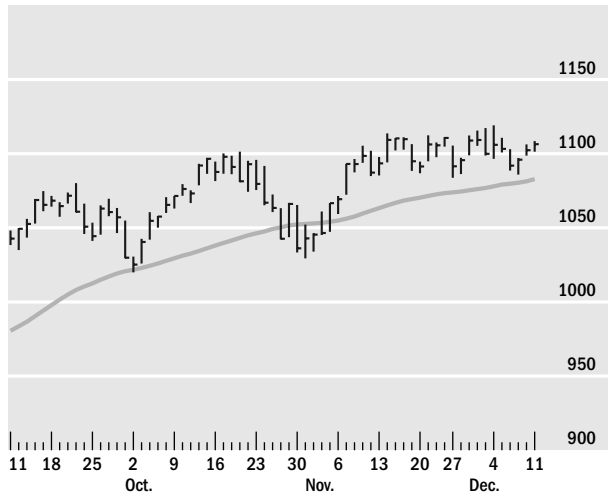
Nasdaq Composite Index P/E: 44*

LAST: **2190.31** ▼ 0.55, or 0.03%
YEAR TO DATE: ▲ **613.28, or 38.9%**
OVER 52 WEEKS ▲ **649.59, or 42.2%**



S&P 500 Index P/E: 73

LAST: **1106.41** ▲ 4.06, or 0.37%
YEAR TO DATE: ▲ **203.16, or 22.5%**
OVER 52 WEEKS ▲ **226.68, or 25.8%**



*Price-to-earnings ratio for the Nasdaq 100 Note: Price-to-earnings ratios are for trailing 12 months

Sources: WSJ Market Data Group; Birinyi Associates

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
AT&T	T	**17.50**	$28.01	0.25	**0.90%**
Alcoa	AA	**72.90**	14.61	1.11	**8.22**
AmExpress	AXP	**7.40**	40.73	0.50	**1.24**
BankAm	BAC	**174.60**	15.63	0.42	**2.76**
Boeing	BA	**7.10**	55.60	0.59	**1.07**
Caterpillar	CAT	**5.20**	57.51	0.57	**1.00**
Chevron	CVX	**6.00**	77.76	0.34	**0.44**
CiscoSys	CSCO	**25.50**	23.77	-0.17	**-0.72**
CocaCola	KO	**13.80**	59.11	0.53	**0.90**
Disney	DIS	**14.80**	31.70	0.40	**1.28**
DuPont	DD	**5.90**	32.23	0.32	**1.00**
ExxonMobil	XOM	**14.70**	72.83	0.43	**0.59**
GenElec	GE	**52.40**	15.92	0.31	**1.99**
HewlettPk	HPQ	**11.10**	50.05	-0.09	**-0.18**
HomeDpt	HD	**13.80**	28.49	0.50	**1.79**
Intel	INTC	**36.30**	19.90	-0.25	**-1.24**
IBM	IBM	**6.00**	129.68	0.34	**0.26**
JPMorgChas	JPM	**41.30**	40.96	-0.31	**-0.75**
JohnsJohns	JNJ	**6.50**	64.85	0.08	**0.12**
KftFoods	KFT	**5.90**	26.79	0.11	**0.41**
McDonalds	MCD	**4.80**	61.66	0.61	**1.00**
Merck	MRK	**12.40**	37.07	-0.09	**-0.24**
Microsoft	MSFT	**40.60**	29.85	-0.02	**-0.07**
Pfizer	PFE	**25.80**	18.30	-0.02	**-0.11**
ProctGamb	PG	**7.60**	62.34	0.10	**0.16**
3M	MMM	**4.50**	81.75	1.07	**1.33**
TravelersCos	TRV	**3.80**	50.70	-0.06	**-0.12**
UnitedTech	UTX	**5.10**	69.40	1.47	**2.16**
Verizon	VZ	**8.70**	33.73	0.07	**0.21**
WalMart	WMT	**10.50**	54.65	-0.04	**-0.07**

U.S. stocks: most active...

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
Citigroup	C	**221.0**	$3.95	$0.08	**2.07%**
BankAm	BAC	**194.6**	15.63	0.42	**2.76**
SPDR S&P 500	SPY	**124.8**	111.11	0.47	**0.42**
Alcoa	AA	**75.2**	14.61	1.11	**8.22**
SunesisPharm	SNSS	**71.9**	1.72	0.33	**23.74**
PwrShrs QQQ	QQQQ	**66.6**	44.13	–0.17	**–0.38**
SPDR FnclSelSct	XLF	**66.0**	14.39	0.10	**0.70**
FordMotor	F	**63.5**	9.00	–0.05	**–0.55**
FannieMae	FNM	**59.3**	1.04	0.12	**13.04**
GenElec	GE	**56.4**	15.92	0.31	**1.99**
iShrRu2000	IWM	**50.5**	60.17	0.56	**0.94**
WellsFargo	WFC	**48.5**	25.41	0.09	**0.36**
JPMorgChas	JPM	**46.6**	40.96	–0.31	**–0.75**
SprintNextel	S	**46.1**	4.07	0.04	**0.99**
IMS Hlth	RX	**45.4**	20.05	–1.31	**–6.13**

Biggest gainers...

Ebix	EBIX	**1,017.0**	$46.71	$30.36	**185.63%**
Chrstphr&Bnks	CBK	**1,264.9**	7.64	1.62	**26.91**
CambmLearnGp	ABCD	**8.3**	4.80	0.71	**17.36**
SnriseSrLvg	SRZ	**1,363.1**	3.04	0.38	**14.29**
AmercDG Enrg	ADGE	**35.5**	2.87	0.35	**13.89**

...Biggest losers

SIGA Tch	SIGA	**11,337.3**	$5.24	-$2.08	**-28.42%**
SportChalet B	SPCHB	**687.7**	2.85	-0.86	**-23.18**
DeerConsProd	DEER	**3,374.1**	12.20	-3.64	**-22.98**
PrimeRlty pfB	PGEZ	**73.8**	4.65	-0.98	**-17.41**
CncrdMdSrvHldg	CCM	**9,122.3**	9.50	-1.50	**-13.64**

ADRs of Asian companies*

52-WEEK High	52-WEEK Low	Stock	Symbol	Volume, in OOOs	Latest	CHANGE Points	CHANGE Percentage
$11.39	$6.36	**Taiwan Semi**	TSM	**10,684.4**	$10.73	-0.20	**-1.83%**
6.84	3.71	**Mitsu UFJ Fnl**	MTU	**4,453.8**	5.13	-0.09	**-1.72**
78.75	33.09	**BHP Billiton**	BHP	**3,314.2**	73.75	0.66	**0.90**
3.87	1.65	**Utd Microelectronics**	UMC	**2,854.2**	3.43	0.00	**0**
11.73	6.25	**AU Optrncs**	AUO	**2,768.0**	11.12	0.22	**2.02**
59.22	40.20	**China Mobile**	CHL	**2,101.2**	45.90	-0.50	**-1.08**
8.19	3.73	**Siliconware Prec Ind**	SPIL	**1,710.5**	6.69	-0.01	**-0.15**
17.66	11.30	**KT Corp**	KTC	**1,429.7**	17.44	-0.09	**-0.51**
32.79	9.91	**Aluminum Cp of China**	ACH	**1,347.6**	28.40	0.79	**2.86**
53.13	22.61	**Infosys Tech**	INFY	**1,335.7**	52.48	-0.13	**-0.25**
15.95	8.56	**China Unicom**	CHU	**1,151.8**	13.13	-0.09	**-0.68**
4.63	1.49	**Adv Semi Engrg**	ASX	**1,117.3**	4.17	0.06	**1.46**
19.56	15.05	**ChunghwaTel**	CHT	**1,068.5**	18.13	0.11	**0.61**
18.80	12.59	**SK Telecom**	SKM	**977.6**	16.69	-0.13	**-0.77**
7.10	2.00	**Alumina**	AWC	**784.7**	5.98	0.22	**3.82**
16.60	10.60	**Matsushita Elec**	PC	**616.2**	14.30	0.36	**2.58**
30.82	15.64	**Sony**	SNE	**575.3**	29.00	0.66	**2.33**
150.50	47.09	**POSCO**	PKX	**554.5**	126.73	4.10	**3.34**
27.96	17.71	**NTT**	NTT	**473.7**	20.90	-0.41	**-1.92**
15.29	6.85	**Korea Elec Pwr**	KEP	**467.2**	14.08	0.02	**0.14**
87.67	56.79	**Toyota Motor**	TM	**388.8**	84.34	0.92	**1.10**
9.82	5.43	**Telecom Corp of NZ**	NZT	**384.1**	8.64	-0.12	**-1.37**
9.50	3.96	**Nomura Hldgs**	NMR	**367.9**	7.61	0.07	**0.93**
81.00	37.43	**China Life Ins**	LFC	**338.8**	76.81	-0.80	**-1.03**
21.66	5.11	**Yanzhou Coal Mining**	YZC	**298.4**	21.56	0.32	**1.51**
94.00	46.45	**China Petro & Chem**	SNP	**291.7**	82.95	-0.56	**-0.67**
135.92	63.94	**PetroChina**	PTR	**286.2**	123.91	0.27	**0.22**
34.52	19.60	**Honda Motor**	HMC	**235.0**	33.85	0.45	**1.35**
42.49	21.23	**Canon**	CAJ	**234.6**	42.18	-0.02	**-0.05**
56.41	31.92	**ChinaTele**	CHA	**183.5**	43.00	-0.49	**-1.13**

*Most active American depositary receipts tracked by Dow Jones

Source: WSJ Market Data Group

Global government bonds

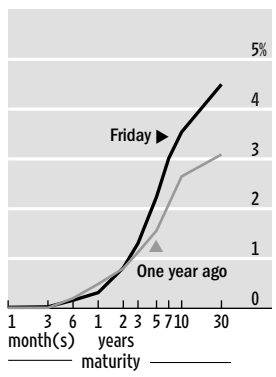
Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 11 a.m. ET

Coupon	Country/ Maturity, in years	Yield	SPREAD OVER TREASURYS, in basis points Latest	Previous	Month ago	Year ago	YIELD Previous	Month ago	Year ago
5.750%	**Australia** 2	**4.560%**	**375.0**	368.6	383.7	**210.3**	**4.472%**	4.678%	**2.901%**
4.500	10	**5.568**	**203.1**	203.0	223.2	**167.7**	**5.508**	5.712	**4.283**
5.250	**Austria** 2	**0.920**	**11.0**	12.4	8.4	**155.4**	**0.910**	0.925	**2.352**
4.350	10	**3.534**	**-0.3**	4.5	11.0	**144.4**	**3.523**	3.590	**4.050**
3.500	**Belgium** 2	**1.112**	**30.2**	32.2	23.8	**182.5**	**1.108**	1.079	**2.623**
4.000	10	**3.599**	**6.2**	15.6	17.7	**141.0**	**3.634**	3.657	**4.016**
1.250	**Canada** 2	**1.237**	**42.7**	43.8	56.3	**70.1**	**1.224**	1.404	**1.499**
3.750	10	**3.389**	**-14.8**	-12.3	1.4	**46.8**	**3.355**	3.494	**3.074**
4.000	**Denmark** 2	**2.133**	**132.3**	128.7	146.3	**249.9**	**2.073**	2.304	**3.297**
4.000	10	**3.596**	**5.9**	6.9	17.4	**112.3**	**3.547**	3.654	**3.729**
1.500	**France** 2	**1.211**	**40.1**	38.1	45.3	**171.2**	**1.167**	1.294	**2.510**
3.750	10	**3.472**	**-6.5**	-1.4	9.0	**104.2**	**3.464**	3.570	**3.648**
1.250	**Germany** 2	**1.270**	**46.0**	46.9	39.7	**135.8**	**1.255**	1.238	**2.156**
3.250	10	**3.204**	**-33.3**	-30.1	-20.1	**60.1**	**3.177**	3.279	**3.207**
0.550	**Hong Kong** 2	**0.461**	**-34.9**	-33.9	-34.9	**14.1**	**0.447**	0.492	**0.939**
2.160	10	**2.385**	**-115.2**	-99.8	-115.3	**-90.0**	**2.480**	2.327	**1.706**
3.750	**Italy** 2	**1.653**	**84.3**	86.1	63.8	**244.3**	**1.647**	1.479	**3.241**
4.250	10	**4.009**	**47.2**	55.9	43.2	**189.0**	**4.037**	3.912	**4.496**
0.300	**Japan** 2	**0.180**	**-63.0**	-60.1	-57.1	**-20.3**	**0.185**	0.270	**0.595**
1.300	10	**1.286**	**-225.1**	-222.9	-199.5	**-119.1**	**1.249**	1.485	**1.415**
4.000	**Netherlands** 2	**0.871**	**6.1**	9.1	8.2	**160.3**	**0.877**	0.923	**2.401**
4.000	10	**3.461**	**-7.6**	-3.6	6.2	**119.4**	**3.442**	3.542	**3.800**
3.200	**Portugal** 2	**1.288**	**47.8**	54.3	33.3	**219.9**	**1.329**	1.174	**2.997**
4.750	10	**3.870**	**33.3**	45.4	30.2	**151.0**	**3.932**	3.782	**4.116**
5.350	**Spain** 2	**1.478**	**66.8**	67.9	53.4	**200.3**	**1.465**	1.375	**2.801**
4.300	10	**3.808**	**27.1**	37.8	34.3	**138.3**	**3.856**	3.823	**3.989**
4.000	**Switzerland** 2	**0.382**	**-42.8**	-40.4	-26.5	**6.9**	**0.382**	0.576	**0.867**
3.000	10	**1.904**	**-163.3**	-159.0	-148.7	**-36.3**	**1.888**	1.993	**2.243**
3.250	**U.K.** 2	**1.237**	**42.7**	36.2	-8.4	**100.0**	**1.148**	0.757	**1.798**
4.500	10	**3.856**	**31.9**	32.4	30.7	**99.3**	**3.802**	3.787	**3.599**
0.750	**U.S.** 2	**0.810**	**...**	...	...	**...**	**0.786**	0.841	**0.798**
3.375	10	**3.537**	**...**	...	...	**...**	**3.478**	3.480	**2.606**

Source: Thomson Reuters

U.S. Treasury yield curve

The curve shows the yield to maturity of current bills, notes and bonds; all data as of 3 p.m. ET.



Ryan Index	Yield to maturity	Modified duration	TOTAL RETURN Month to-date	Quarter to-date	Year to-date	12-month
30-year Treasury	**4.497%**	16.40	–4.75%	–6.24%	–24.04%	–18.36%
10-year Treasury	**3.540**	8.34	–2.68	–1.20	–7.29	–4.05
7 Year Treasury	**3.010**	6.28	–1.89	0.38	...	...
Five-year Treasury	**2.238**	4.69	–1.01	1.21	1.18	1.73
Ryan Index	**2.568**	6.77	–1.84	–0.69	–5.06	–2.74
3 Year Treasury	**1.306**	2.94	–0.38	1.09	2.17	2.68
Two-year Treasury	**0.814**	1.95	–0.26	0.67	1.81	2.06
1 Year Treasury	**0.315**	0.94	–0.05	0.25	1.01	1.22
Six-month Treasury	**0.162**	0.50	0.01	0.07	0.64	0.72
Ryan Cash Index-a	**0.132**	0.44	–0.01	0.10	0.54	0.61
Three-month bill	**0.030**	0.25	0.01	0.05	0.36	0.35
One-month bill	**0.020**	0.07	0.01	0.02	0.14	0.15

a-Performance of a cash investment

Source: Ryan ALM

Key money rates

	Latest	52 wks ago
Prime rates		
U.S.	**3.25%**	4.00%
Canada	**2.25**	3.50
Japan	**1.475**	1.675
Britain	**0.50**	2.00
ECB	**1.00**	2.50
Switzerland	**0.53**	2.03
Australia	**3.75**	4.25
Hong Kong	**5.25**	n.a.
Libor		
One month	**0.23313%**	1.04000%
Three month	**0.25363**	1.92125
Six month	**0.45575**	2.22000
One year	**1.00400**	2.41875

	Latest	52 wks ago
Euro Libor		
One month	**0.45563%**	2.97250%
Three month	**0.67750**	3.28875
Six month	**0.97875**	3.37250
One year	**1.22625**	3.47500
Hibor		
One month	**0.05000**	0.89714%
Three month	**0.10036**	1.60286
Six month	**0.22714**	2.15000
One year	**0.52786**	2.30143
Asian dollars		
One month	**0.2445%**	1.08%
Three month	**0.2658**	1.9540
Six month	**0.4713**	2.2840
One year	**1.0100**	2.4580

	Offer	Bid
Eurodollars		
One month	**0.2900%**	0.1900%
Three month	**0.3200**	0.2200
Six month	**0.3900**	0.2900
One year	**0.6000**	0.5000

	Latest	52 wks ago
U.S. discount	**0.50%**	1.25%
Fed-funds target	**0.25**	1.00
Call money	**2.00**	2.75
Overnight repurchase rates		
U.S.	**0.21%**	0.15%
U.K. (BBA)	**0.477**	1.925
Euro zone	**0.38**	2.28

Sources: WSJ Market Data Group; Reuters

GLOBAL MARKETS LINEUP

Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **NYBOT:** New York Board of Trade; **MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **LME:** London Mercantile Exchange; **NYMEX:** New York Mercantile Exchange; **ICE:** IntercontinentalExchange

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	ONE-DAY CHANGE Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	404.50	11.50	2.93%	712.25	315.50
Soybeans (cents/bu.)	CBOT	1035.00	8.00	0.78	1,315.00	794.00
Wheat (cents/bu.)	CBOT	537.50	0.50	0.09	1,029.25	459.00
Live cattle (cents/lb.)	CME	83.275	1.100	1.34	108.600	81.900
Cocoa ($/ton)	ICE-US	3,394	-23	-0.67%	3,439	1,994
Coffee (cents/lb.)	ICE-US	142.65	-0.05	-0.04	188.65	115.00
Sugar (cents/lb.)	ICE-US	24.00	0.74	3.18	26.25	11.91
Cotton (cents/lb.)	ICE-US	74.31	0.59	0.80	84.00	49.67
Crude palm oil (ringgit/ton)	MDEX	2,530.00	9	0.36	2,606	2,013
Cocoa (pounds/ton)	LIFFE	2,267	-9	-0.40	2,284	1,310
Robusta coffee ($/ton)	LIFFE	1,366	-16	-1.16	1,955	1,295
Copper (cents/lb.)	COMEX	313.30	3.00	0.97	365.00	135.50
Gold ($/troy oz.)	COMEX	1119.90	-6.30	-0.56	1,227.50	762.30
Silver (cents/troy oz.)	COMEX	1709.00	-9.80	-0.57	2,011.50	1,045.00
Aluminum ($/ton)	LME	2,245.00	45.00	2.05	2,245.00	1,288.00
Tin ($/ton)	LME	15,220.00	15.00	0.10	15,700.00	9,750.00
Copper ($/ton)	LME	6,910.00	80.00	1.17	7,100.00	2,815.00
Lead ($/ton)	LME	2,321.00	35.00	1.53	2,487.00	870.00
Zinc ($/ton)	LME	2,328.00	34.00	1.48	2,406.00	1,065.00
Nickel ($/ton)	LME	16,600	50	0.30	21,150	9,475
Crude oil ($/bbl.)	NYMEX	71.95	-0.37	-0.51	117.00	47.60
Heating oil ($/gal.)	NYMEX	1.9085	0.0056	0.29	4.1847	1.3640
RBOB gasoline ($/gal.)	NYMEX	1.8416	0.0065	0.35	2.7100	1.1525
Natural gas ($/mmBtu)	NYMEX	5.163	-0.135	-2.55	12.920	4.432
Brent crude ($/bbl.)	ICE-EU	72.70	-0.03	-0.04	145.00	50.00
Gas oil ($/ton)	ICE-EU	582.00	-5.00	-0.85	790.00	443.50

Source: Thomson Reuters; WSJ Market Data Group

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Currencies

London close on Dec. 11

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	5.5499	0.1802	3.7960	0.2634
Brazil real	2.5685	0.3893	1.7568	0.5692
Canada dollar	1.5424	0.6483	1.0550	0.9479
1-mo. forward	1.5424	0.6483	1.0550	0.9479
3-mos. forward	1.5424	0.6483	1.0550	0.9479
6-mos. forward	1.5425	0.6483	1.0550	0.9479
Chile peso	724.81	0.001380	495.75	0.002017
Colombia peso	2920.15	0.0003425	1997.30	0.0005007
Ecuador US dollar-f	1.4620	0.6840	1	1
Mexico peso-a	18.8929	0.0529	12.9222	0.0774
Peru sol	4.2012	0.2380	2.8735	0.3480
Uruguay peso-e	28.685	0.0349	19.620	0.0510
U.S. dollar	1.4620	0.6840	1	1
Venezuela bolivar	3.14	0.318526	2.15	0.465701
ASIA-PACIFIC				
Australia dollar	1.6039	0.6235	1.0970	0.9116
China yuan	9.9824	0.1002	6.8277	0.1465
Hong Kong dollar	11.3314	0.0883	7.7504	0.1290
India rupee	67.9561	0.0147	46.4800	0.0215
Indonesia rupiah	13802	0.0000725	9440	0.0001059
Japan yen	130.98	0.007635	89.59	0.011163
1-mo. forward	130.95	0.007637	89.56	0.011165
3-mos. forward	130.90	0.007640	89.53	0.011169
6-mos. forward	130.77	0.007647	89.44	0.011180
Malaysia ringgit-c	4.9702	0.2012	3.3995	0.2942
New Zealand dollar	2.0208	0.4949	1.3822	0.7235
Pakistan rupee	122.958	0.0081	84.100	0.0119
Philippines peso	67.335	0.0149	46.055	0.0217
Singapore dollar	2.0361	0.4911	1.3926	0.7181
South Korea won	1701.94	0.0005876	1164.08	0.0008591
Taiwan dollar	47.045	0.02126	32.178	0.03108
Thailand baht	48.460	0.02064	33.145	0.03017

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.6840	1.4620
1-mo. forward	1.0001	0.9999	0.6840	1.4619
3-mos. forward	1.0003	0.9997	0.6842	1.4616
6-mos. forward	1.0009	0.9991	0.6846	1.4608
Czech Rep. koruna-b	25.758	0.0388	17.618	0.0568
Denmark krone	7.4423	0.1344	5.0903	0.1965
Hungary forint	272.48	0.003670	186.37	0.005366
Norway krone	8.4362	0.1185	5.7701	0.1733
Poland zloty	4.1529	0.2408	2.8405	0.3521
Russia ruble-d	43.977	0.02274	30.079	0.03325
Sweden krona	10.4106	0.0961	7.1206	0.1404
Switzerland franc	1.5123	0.6612	1.0344	0.9667
1-mo. forward	1.5120	0.6614	1.0342	0.9669
3-mos. forward	1.5114	0.6616	1.0338	0.9673
6-mos. forward	1.5101	0.6622	1.0329	0.9682
Turkey lira	2.1976	0.4550	1.5031	0.6653
U.K. pound	0.9006	1.1103	0.6160	1.6234
1-mo. forward	0.9008	1.1101	0.6161	1.6230
3-mos. forward	0.9012	1.1097	0.6164	1.6224
6-mos. forward	0.9016	1.1091	0.6167	1.6216
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5512	1.8143	0.3770	2.6527
Egypt pound-a	8.0175	0.1247	5.4838	0.1824
Israel shekel	5.5156	0.1813	3.7725	0.2651
Jordan dinar	1.0348	0.9664	0.7078	1.4129
Kuwait dinar	0.4170	2.3978	0.2853	3.5057
Lebanon pound	2196.73	0.0004552	1502.50	0.0006656
Saudi Arabia riyal	5.4841	0.1823	3.7510	0.2666
South Africa rand	11.0136	0.0908	7.5330	0.1327
United Arab dirham	5.3701	0.1862	3.6730	0.2723
SDR -f	0.9187	1.0885	0.6283	1.5915

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.
Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
32	**ASIA-PACIFIC**	**DJ Asia-Pacific**	122.32	0.50	0.41%	30.7%	39.5%
...	Australia	**SPX/ASX 200**	4635.23	28.56	0.62	24.5	32.0
31	China	**CBN 600**	29119.60	-19.06	-0.07%	97.2	85.0
20	Hong Kong	**Hang Seng**	21902.11	202.07	0.93	52.2	48.4
19	India	**Sensex**	17119.03	-70.28	-0.41	77.4	76.7
...	Indonesia	**Jakarta Composite**	2519.099	32.662	1.31	85.9	99.5
...	Japan	**Nikkei Stock Average**	10107.87	245.05	2.48	14.1	22.7
...		**Topix**	888.57	14.67	1.68	3.4	9.2
...	Malaysia	**Kuala Lumpur Composite**	1260.00	0.10	0.01	43.7	47.8
...	New Zealand	**NZSX-50**	3127.984	-4.300	-0.14	15.2	16.8
8	Pakistan	**KSE 100**	9037.30	37.91	0.42	54.1	-1.6
15	Philippines	**Manila Composite**	3031.13	24.56	0.82	61.8	60.1
...	Singapore	**Straits Times**	2800.75	18.89	0.68	59.0	60.9
11	South Korea	**Kospi**	1656.90	4.17	0.25	47.3	50.1
21	Taiwan	**Weighted**	7795.07	117.16	1.53	69.8	73.9
10	Thailand	**SET**	703.64	8.93	1.29	56.4	65.6
50	**EUROPE**	**DJ Stoxx 600**	245.13	1.24	0.51	24.5	23.7
22		**DJ Stoxx 50**	2483.70	9.04	0.37	20.2	19.4
62	**Euro Zone**	**DJ Euro Stoxx**	266.17	0.99	0.37%	19.5%	21.2%
20		**DJ Euro Stoxx 50**	2862.32	11.03	0.39	16.8	18.3
18	Denmark	**OMX Copenhagen**	311.87	0.49	0.16	37.9	34.0
19	Finland	**OMX Helsinki**	6239.68	66.25	1.07	15.5	16.0
19	France	**CAC-40**	3803.72	5.34	0.14	18.2	18.4
...	Germany	**DAX**	5756.29	47.27	0.83	19.7	23.4
16	Italy	**FTSE MIB**	22411.51	25.84	0.12	15.2	16.9
...	Netherlands	**AEX**	320.14	2.45	0.77	30.2	29.2
...	Russia	**RTSI**	1366.36	14.38	1.06	116.2	109.5
11	Spain	**IBEX 35**	11616.0	21.3	0.18	26.3	29.4
14	Switzerland	**SMI**	6411.58	0.94	0.01	15.8	13.8
...	Turkey	**ISE National 100**	49386.42	-208.08	-0.42%	83.8	98.0
14	U.K.	**FTSE 100**	5261.57	17.20	0.33	18.7	22.9
21	**AMERICAS**	**DJ Americas**	292.71	1.03	0.35	29.4	33.7
...	Brazil	**Bovespa**	69267.47	539.18	0.78	84.5	75.9
...	Argentina	**Merval**	2177.63	-1.97	-0.09	101.7	98.3
20	Mexico	**IPC**	31901.69	-14.91	-0.05	42.5	49.0

*P/E ratios use trailing 12-months, as-reported earnings
European and Americas index data are as of 5:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

Reuters Group PLC is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones and Dow Jones Stoxx Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	Last	Net change	PERFORMANCE Daily	Year-to-date	52-wk.	Three-yr., annualized
2.23%	20	**DJ Global Index**	224.03	0.51	0.51%	35.8%	0.2%	-6.6%
1.89	21	**Global DOW**	1963.49	6.70	6.70	33.9	0.3	-2.2
2.40		**Asia/Pacific 600**	114.62	0.35	0.35	28.2	0.3	-7.1
1.79	15	**Emerging Markets**	275.00	2.02	2.02	83.3	0.7	3.7
2.17	32	**Asia/Pacific**	122.32	0.51	0.51	39.5	0.4	-5.1
2.44	13	**Asia/Pacific ex-Japan**	308.71	1.58	1.58	78.7	0.5	1.2
2.61	22	**Southeast Asia**	154.96	1.96	1.96	79.2	1.3	1.9
0.83	31	**CBN China 600** -c	29119.60	-19.06	-19.06	85.0	-0.1	28.0
0.85	34	**Shanghai**	387.32	-0.32	-0.32	84.8	-0.1	28.0
0.57	48	**Shenzhen**	421.56	0.05	0.05	108.5	0.0	34.4
2.18	20	**China Offshore 50**	4100.49	20.89	20.89	53.9	0.5	11.1
8.92	9	**Australia LPT** -c, d	1089.07	7.90	7.90	2.3	0.7	-20.9
2.18%	15	**Islamic Market**	1942.16	3.84	3.84%	36.6%	0.2%	-2.1%
2.48	16	**Islamic Market 100**	2102.04	4.99	4.99	23.9	0.2	-2.6
10.01	14	**Bahrain**	117.50	0.01	0.01	-27.6	0.0	-13.8
2.91	31	**Kuwait**	191.08	-2.27	-2.27	-28.3	-1.2	-15.1
2.67	19	**Sustainability**	1000.47	0.81	0.81	34.8	0.1	-7.1
2.72	50	**Stoxx 600**	267.69	-0.43	-0.43	35.2	-0.2	-8.9
4.74	17	**Stoxx Select Div 30**	1758.40	-7.40	-7.40	33.0	-0.4	-21.2
3.98	23	**Euro Stoxx Sel Div 30**	2097.13	-11.52	-11.52	34.1	-0.6	-16.6
1.78	29	**DJ U.S. TSM**	11344.46	48.23	48.23	28.9	0.4	-7.3
3.99	15	**U.S. Select Dividend -d**	649.82	5.59	5.59	14.7	0.9	-9.7
4.68		**U.S. REIT**	141.60	1.92	1.92	27.8	1.4	-19.4
		DJ-UBS Commodity -p	133.15	0.74	0.74	18.2	0.6	-7.7

*Fundamentals are based on data in U.S. dollar. Footnotes: c-in local currency. d-dividends reinvested. p-previous day. Note: All data as of 11:30 a.m. ET.

Source: Dow Jones Indexes

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

	US$	A$	£	C$	YUAN	EURO	HK$	RUPEE	RUPIAH	YEN	NZ$	WON	RINGGIT	PH. PESO	S$	S FRANC	TW$	BAHT
U.S.		1.097	0.616	1.055	6.828	0.684	7.750	46.480	9440.20	89.585	1.382	1164.08	3.399	46.055	1.393	1.034	32.177	33.145
Australia	0.912		0.562	0.962	6.224	0.623	7.065	42.369	8605.21	81.661	1.260	1061.11	3.099	41.981	1.269	0.943	29.331	30.213
Britain	1.623	1.781		1.713	11.084	1.110	12.582	75.453	15324.74	145.428	2.244	1889.70	5.519	74.763	2.261	1.679	52.235	53.806
Canada	0.948	1.040	0.584		6.472	0.648	7.347	44.059	8948.48	84.919	1.310	1103.44	3.222	43.656	1.320	0.981	30.501	31.419
China	0.1465	0.161	0.090	0.155		0.100	1.135	6.808	1382.64	13.121	0.202	170.49	0.498	6.745	0.204	0.152	4.713	4.855
Euro	1.462	1.604	0.901	1.542	9.982		11.331	67.956	13802.04	130.978	2.021	1701.94	4.970	67.335	2.036	1.512	47.045	48.460
Hong Kong	0.129	0.142	0.079	0.136	0.881	0.088		5.997	1218.03	11.559	0.178	150.20	0.439	5.942	0.180	0.133	4.152	4.277
India	0.0215	0.0236	0.0133	0.0227	0.1469	0.0147	0.1667		203.10	1.9274	0.0297	25.04	0.0731	0.9909	0.0300	0.0223	0.6923	0.7131
Indonesia	0.0001	0.0001	0.0001	0.0001	0.0007	0.0001	0.0008	0.0049		0.0095	0.0001	0.12	0.0004	0.0049	0.0001	0.0001	0.0034	0.0035
Japan	0.011	0.012	0.007	0.012	0.076	0.008	0.087	0.519	105.38		0.015	12.99	0.038	0.514	0.016	0.012	0.359	0.370
New Zealand	0.724	0.794	0.446	0.763	4.940	0.495	5.607	33.628	6829.98	64.815		842.21	2.460	33.321	1.008	0.748	23.280	23.980
South Korea	0.0009	0.0009	0.0005	0.0009	0.0059	0.0006	0.0067	0.0399	8.11	0.0770	0.0012		0.0029	0.0396	0.0012	0.0009	0.0276	0.0285
Malaysia	0.294	0.323	0.181	0.310	2.008	0.201	2.280	13.673	2776.94	26.352	0.407	342.43		13.548	0.410	0.304	9.465	9.750
Philippines	0.022	0.024	0.013	0.023	0.148	0.015	0.168	1.009	204.98	1.945	0.030	25.28	0.074		0.030	0.022	0.699	0.720
Singapore	0.718	0.788	0.442	0.758	4.903	0.491	5.565	33.376	6778.83	64.329	0.993	835.90	2.441	33.071		0.743	23.106	23.801
Switzerland	0.967	1.061	0.596	1.020	6.601	0.661	7.493	44.934	9126.25	86.606	1.336	1125.36	3.286	44.523	1.346		31.107	32.043
Taiwan	0.031	0.034	0.019	0.033	0.212	0.021	0.241	1.444	293.38	2.784	0.043	36.18	0.106	1.431	0.043	0.032		1.030
Thailand	0.030	0.033	0.019	0.032	0.206	0.021	0.234	1.402	284.82	2.703	0.042	35.12	0.103	1.390	0.042	0.031	0.971	

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of December. 11, 2009

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
2.50%	25	**ALL COUNTRY (AC) WORLD***	295.27	0.42%	29.7%	34.2%
2.50	26	**World (Developed Markets)**	1,154.07	0.45	25.4	29.2
1.90	124	**World Small Cap**	184.76	0.03	37.7	45.7
2.60	22	**Kokusai (World ex-Japan)**	1,142.47	0.69	28.0	31.1
3.10	26	**EAFE**	1,563.64	0.23	26.4	33.8
2.20	20	**Emerging Markets (EM)**	965.26	0.28	70.2	83.2
2.60	25	**AC ASIA PACIFIC EX-JAPAN**	405.75	-0.06	64.0	78.4
2.10	25	**AC Far East ex-Japan**	439.63	-0.24	61.2	77.4
1.80	-35	**Japan**	545.11	-1.28	2.9	5.7
1.90	20	**China**	64.54	-0.49	58.2	74.8
0.90	39	**China A (China Domestic)**	3,400.02	0.62	96.0	95.6
2.60	23	**Hong Kong**	10,148.06	-0.00	54.8	60.6
1.00	21	**India**	696.18	0.32	88.6	101.0
1.10	24	**Korea**	473.67	1.29	54.3	58.5
2.40	21	**Malaysia**	464.64	0.31	44.6	46.4
3.10	17	**Singapore**	1,557.93	-0.51	56.3	58.4
2.70	315	**Taiwan**	277.25	-1.53	59.9	65.5
3.10	20	**Thailand**	281.09	0.00	51.9	69.3
4.00	25	**Australia**	948.24	-0.64	23.9	22.8
5.30	16	**New Zealand**	83.98	1.08	10.6	8.3
1.90	32	**US BROAD MARKET**	1,215.86	0.51	23.8	25.7
3.40	17	**EUROPE**	84.81	1.04	22.2	17.3

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

MARKETS

Goldman cedes some ground on pay

Elimination of 2009 cash bonuses for 30 executives may not affect the rest of the bank's staff

By Susanne Craig

Goldman Sachs Group Inc. made biggest concession yet to defuse public outrage over its pay, saying its top 30 executives will receive no cash bonuses for 2009 despite the firm's expected record profits.

The announcement Thursday came in response to the criticism of its compensation barely a year after the New York company received $10 billion in taxpayer-funded aid. Instead of a mix of cash and stock, Chairman and Chief Executive Lloyd C. Blankfein and the rest of Goldman's management committee will be awarded only stock that can't be sold for five years.

But the changes are only for 2009 and don't necessarily affect more than 31,000 other Goldman employees, consultants and temporary workers. That group includes traders and other employees who are fueling most of this year's revenue and profit surge, putting them in line for sharply higher bonuses early next year. In addition, Goldman gave no indication in its announcement that it will buckle to pressure to rein in pay levels.

The moves followed weeks of internal debate at the 140-year-old firm and a behind-the-scenes revolt by some of the largest Goldman shareholders. The Wall Street Journal reported last week that some investors have urged Goldman to essentially put its pay culture up for a referendum at next spring's annual meeting.

Goldman's board decided in the past several days to hold a special meeting to discuss and vote on executive pay as well as a shareholder proposal to give investors a nonbinding vote on executive compensation, according to people familiar with the situation. Directors met by phone and agreed to the changes Thursday, these people said.

The say-on-pay proposal was widely applauded by corporate-governance groups. While other big U.S. companies have adopted similar measures, Goldman is the first bank to put its pay practices up for a vote. In a statement, Mr. Blankfein said the company is "further strengthening our dialogue with shareholders on the important issue of compensation."

Hye-Won Choi, head of corporate governance at TIAA-CREF, which owns $1 billion of Goldman shares, said the firm was wise not to wait for say-on-pay legislation, which is pending in Congress.

"Goldman has set a high standard for Wall Street firms," she said. "Shareholders should use the vote as an opportunity to provide constructive feedback on the company's compensation disclosures and policies."

U.S. Rep. Barney Frank (D., Mass.) said Goldman "may be moving in the direction we said they should, which is tie it to stock and have a clawback."

Goldman's compensation and benefit pool is on track to top $20 billion this year, a record that would be equivalent to nearly $800,000 per employee. The payout comes just a year after Wall Street's failed gamble on real estate and other high-flying assets backfired, roiling stock markets and throwing the U.S. into recession.

Top Goldman executives didn't receive bonuses in 2008. Mr. Blankfein took home $68.5 million in cash and stock in 2007, a record payday for the head of a publicly traded securities firm.

Bonuses paid to executives at the top of Goldman previously were 70% stock and 30% in cash, with the bonuses vesting over four years. For 2009, their entire bonus will be paid in what Goldman calls "shares at risk," which can't be touched for five years, the most rigorous vesting schedule on Wall Street.

Lucian Bebchuk, a Harvard University law professor who focuses on corporate compensation, said the new bonus structure "is a very good way of going about tying compensation with long-term value."

The shares also are subject to toughened clawback provisions, which currently state that employees caught in acts of fraud or malfeasance may lose their shares. As a result of the changes announced Thursday, any conduct that results in a material restatement of financial statements or material harm to a business unit could result in an employee handing back shares.

During its 10 years as a public company, Goldman has never had a material restatement of its earnings.

In November, the Connecticut Retirement Plans & Trust Funds, which owns about $39 million in Goldman shares, submitted a shareholder proposal requesting that shareholders be given a nonbinding vote on executive pay. Goldman has received a total of 14 shareholder proposals on subjects ranging from pay to global warming.

While say-on-pay policies are popular among corporate governance-minded stakeholders, some senior Goldman executives have long resisted putting pay to a formal vote, fearing it would lead to too much shareholder meddling.

Executives also worried that shareholder feedback would be diluted by raising the pay issue every year. "There was concern that if this is put to an annual vote it would mean there wouldn't be meaningful debate," said one person familiar with the firm's thinking.

—Damian Paletta contributed to this article.

Bloomberg News

Lloyd Blankfein says Goldman's pay policies are the strongest in the industry.

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China's new pressure point

There's not much in China's latest batch of economic data to trouble those predicting further recovery in 2010. And the broad thrust of policy announced at the government's recent economic planning pow-wow suggests that Beijing doesn't see the need for any dramatic gestures.

Inflation is the potential fly in the ointment. Figures for November showed consumer prices rising again.

The 0.6% year-on-year rise isn't cause for panic. But November's CPI rise was the first since January 2009. Weak comparatives could soon make the figures more striking, plus there is upward pressure from elsewhere. Money supply is still expanding at nearly 30% year-on-year. Bank lending continues to surge, albeit at a slower pace. New loans rose by around $43 billion in November.

As headline inflation figures rise, there will be pressure on China's central bank to tighten policy sooner than it might wish. Ben Simpfendorfer, RBS's China economist, says worsening inflation expectations could lead to an interest-rate increase in the second quarter of 2010.

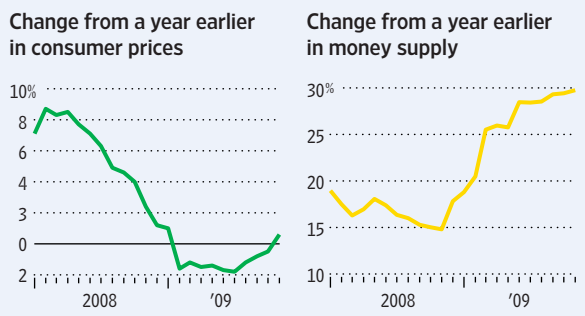
A move that soon is something the authorities will want to avoid, especially since it would likely come before similar action in the U.S. A wider interest-rate differential between the U.S. and China would only encourage hot money inflows, complicating monetary policy further.

Well before it's forced to raise rates, China's central bank is likely to attempt to suck money out of the economy in other ways, perhaps via open-market operations to drain liquidity or raising the level of reserves that banks are required to hold. But, holding the line against the inflation headlines will only get harder.

—Andrew People

Customers at a market in Beijing last week.

Party pooper



Source: China's National Bureau of Statistics

Central banks' other exit option

Next year is going to be all about central-bank exit strategies. But how are policy makers going to wind down the exceptional support they provided to the financial system? Investors overwhelmingly expect them to first withdraw liquidity measures such as quantitative easing and emergency funding facilities, and only later raise interest rates.

But that isn't the only way to tighten monetary policy. An alternative: to start normalizing rates while continuing to make abundant liquidity available if necessary.

This approach could have advantages for financial stability. The recent European government-bond market volatility may be just a foretaste of the turmoil in store if central banks remove liquidity and quantitative-easing programs too abruptly. Given the vast amount of bank funding that needs to be rolled over in the next two years, there is a risk that a misjudged exit by the European Central Bank, the U.S. Federal Reserve or the Bank of England would trigger new instability among financial institutions.

Raising rates while leaving in place a range of liquidity options—looser collateral requirements, long-term borrowing facilities and central-bank purchases of government bonds—would avoid the risk of this kind of instability while making users pay more for the privilege. In addition, it would address concerns that the current combination of exceptionally loose liquidity and near-zero interest rates could fuel asset-price bubbles.

The problem is that unemployment is still high. Jacking up interest rates could hurt the real economy, hitting particularly mortgage holders and corporate borrowers on variable rates. But a disorderly exit from liquidity programs would also lead to higher and more unpredictable market rates, increasing the chances of a double-dip recession.

Central banks should make clear that their choice of exit strategy will depend both on the trajectory of the economic recovery and on governments' behavior. The bigger the fiscal deficit, the more likely central banks will need to continue to provide liquidity support to maintain financial stability. But that shouldn't preclude tighter monetary policy, if the recovery requires it. The threat of higher interest rates may actually help central banks enforce fiscal responsibility and assert their independence.

The first rule of central banking in a crisis, as set out by Walter Bagehot in the 19th century, is to lend freely at a punitive rate. That lesson has been almost entirely lost in the last two years. Perhaps it is time for central banks to revive it.

—Simon Nixon

Irish discipline sets an example for Greece

Greece and Ireland face the biggest fiscal problems in Europe. But their responses couldn't be more different. Greece's lack of credibility has cost it dearly in the eyes of ratings companies, the European Commission and the bond market. That means it will have to go even further than Ireland if it is to win back confidence.

Both countries face double-digit deficits this year: 12.7% of gross domestic product in Greece and around 12% in Ireland. Greece's debt-to-GDP ratio is forecast to hit 120% next year; Ireland's headline ratio of 64% also would rise to more than 100% if the bad debt taken on by the government under its bank bailouts is included. The European Commission is demanding that both cut their deficits to below 3% of GDP and reduce debt-to-GDP to less than 60%.

Ireland has won greater breathing space partly because it has shown far greater political courage. Its 2010 budget includes clear spending cuts. Public-sector wages are to fall by between 5% and 15%; the prime minister is taking a 20% cut. Greece's budget relies heavily on one-time policies such as measures aimed at reducing tax evasion.

reland's past record earns it a degree of forbearance. Between 1994 and 2006, Dublin cut its debt to 24% of GDP from 94%, according to Barclays Capital. Compare that to Greece, which has very little credibility when it comes to making tough political decisions: It cut debt to only 94% of GDP in 1999 from 108% in 1994 ahead of euro entry, before it started rising again.

Even now, Dublin enjoys broad public acceptance of its austerity plans. But Greece faced riots last year and renewed clashes this past week.

Still, Athens has little choice but to bite the bullet. The Irish lesson may be a hard one, but Greece needs to learn it fast.

—Richard Barley

Gold market trades on luster and bluster

Imagine all mining of gold ceased tomorrow. The gold price would spike initially. Miscreants might ransack neighborhood church altars. Suitors of "single ladies" heeding singer Beyoncé's exhortation to "put a ring on it" would bankrupt themselves.

Then what? Apart from bars going up on stained-glass windows and a sudden outbreak of bachelorhood, civilization would survive. You can't eat, drink or burn gold. The story of King Midas is, after all, a cautionary tale, not an ode to bling.

Yet the argument that the world's output of gold has peaked is being deployed to justify another leg up in prices from Thursday's $1,125.70 an ounce. **Barrick Gold** Chief Executive Aaron Regent reckons peak gold may already be upon us; although it is worth remembering his company has just unwound its hedges, leaving profits more levered to rising prices.

Unlike oil or food, however, gold isn't consumed. Virtually all gold ever mined remains extant. Some 86% of those 5.24 billion ounces rests in vaults or on people's bodies, according to the World Gold Council.

Genuine shortages look unlikely. And high prices have an effect. Demand for gold jewelry, which accounts for about half of overall demand, fell 30% year-on-year in the third quarter.

Declining production, therefore, might offer some support to prices, but not necessarily at today's level, as it becomes clear that demand is being rationed and the supply overhang in the form of physical stocks remains high. When mine output stagnated between 1992 and 1996, the spot gold price rose by all of 4% to $368 an ounce.

Above all, phrases like peak gold should trigger alarms. Investors buying into similar arguments at the height of the energy bull markets suffered big losses as recession hit and supplies turned out to be ample.

And those commodities really get used up, rather than merely stored in the hope someone else pays more for them later.

Another bull argument, recalling the days of the gold standard, observes that the money supply has expanded far faster than gold reserves. Yet even if proponents could agree on the metrics to be used—narrow or broad money? official reserves? global stocks?—the argument hasn't held over time. Gold was range-bound after the early 1980s bubble until the middle of this decade, even as U.S. money supply expanded, and has displayed little correlation with movements in broad money-supply measures. Lately, it has even disconnected from measures of observed and anticipated inflation.

Phrases like peak gold should trip alarms. Investors buying into similar arguments at the height of the energy bull markets lost big.

The gold price's reaction to recent events like the unexpected drop in the U.S. unemployment rate and worries about Dubai and Greece is more telling. Gold has dropped at even the slightest foreshadowing of monetary-policy tightening or signs the financial system faces another bout of fragility. Its correlation with the S&P 500-stock index has leapt from about zero in May to more than 40%.

For all the talk of fundamentals and being a safe haven, gold is behaving more like the risk assets against which it is supposed to offer diversification.

—Liam Denning

Sources:Comex; Thomson Reuters

MARKETS LINEUP

Moving the markets

At right, Japan's benchmark stock index and the biggest movers among the larger Asian stocks indexes and stocks Friday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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Asian index movers...

Nikkei Stock Average
Japan 10107.87
▲ **2.48% or 245.05**

Stocks finished the week strongly as the yen weakened and Chinese economic data lifted sentiment. For the week, the index added 0.9% and is up 8.2% for December.

Stock	Volume in millions	Close	Change Net	Change %
Mtshbsh Fin Grp	**169.24**	455	–7	–1.52
Mizuho Financial	**129.46**	159	2	1.27
Sanyo Elec	**119.04**	172	–4	–2.27
Toshiba	**74.57**	504	23	4.78
Hitachi	**69.46**	235	2	0.86

Hang Seng
Hong Kong 21902.11
▲ **0.93% or 202.07**

Shares staged a comeback Friday on bargain-hunting, after five sessions of declines, but finished the week down 2.7%. Analysts remain optimistic for the long term.

Stock	Volume in millions	Close	Change Net	Change %
CCB	**293.82**	6.84	0.05	0.74
Bank Of China	**284.83**	4.28	0.04	0.94
Icbc	**259.22**	6.45	0.04	0.62
ChinaPetroChem	**112.91**	6.44	0.04	0.63
PetroChina	**81.69**	9.62	0.08	0.84

Straits-Times
Singapore 2800.75
▲ **0.68% or 18.89**

The advance was led mostly by commodity and property stocks. But analysts expect further gains to be limited as investors wait out the year end.

Stock	Volume in millions	Close	Change Net	Change %
Golden Agri	**72.01**	0.49	0.02	3.16
Sing Telecom	**20.24**	3.02	0.04	1.34
Noble Grp	**16.76**	3.14	unch	...
Genting Spore	**15.40**	1.08	unch	...
CapitaLand	**11.85**	4.19	unch	...

ASX 200
Australia 4635.227
▲ **0.62% or 28.563**

Optimism over the pace of the global economic recovery snapped five days of losses. Gains were limited by a feeling the market is fully valued. It fell 1.4% for the week.

Stock	Volume in millions	Close	Change Net	Change %
Boart Longyear	**160.27**	0.36	0.02	4.35
GPT Group	**49.27**	0.56	–0.01	–1.77
Telstra	**39.39**	3.47	unch	...
Qantas Airways	**38.46**	2.58	0.03	1.18
Goodman Grp-Stpl	**30.98**	0.58	0.02	2.68

Asian stocks in the news

Obayashi
Japan ¥306
▲ **5.2% or ¥15**

Shares advanced after Credit Suisse raised its rating, citing gradual recovery in construction.

Price-to-earnings ratio	**30**
Earnings per share, past four quarters	**10.30**
Dividend yield	**2.6**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Constructn & Matl	**0.8%**	0.7%	37.4%
Obayashi	**5.2%**	1.7%	-43.0%

Kyocera
Japan ¥7,880
▲ **5.3% or ¥400**

Encouraging Chinese economic data lifted shares on hopes for improving product demand.

Price-to-earnings ratio	**36**
Earnings per share, past four quarters	**219.50**
Dividend yield	**1.5**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**1.3%**	1.1%	50.3%
Kyocera	**5.3%**	6.3%	23.7%

TDK
Japan ¥5,290
▲ **6.2% or ¥310**

Shares rose amid a rebound in exporters' stocks as the yen retreated.

Price-to-earnings ratio	**132**
Earnings per share, past four quarters	**40.10**
Dividend yield	**1.1**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**1.3%**	1.1%	50.3%
TDK	**6.2%**	5.2%	84.3%

Kawasaki Hvy Inds
Japan ¥235
▲ **6.3% or ¥14**

Stock gained along with other heavy industry and railway infrastructure-related shares.

Price-to-earnings ratio	**131**
Earnings per share, past four quarters	**1.80**
Dividend yield	**1.3**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**1.3%**	1.1%	50.3%
Kawasaki Hvy Inds	**6.3%**	3.5%	32.0%

JTEKT
Japan ¥1,099
▲ **6.7% or ¥69**

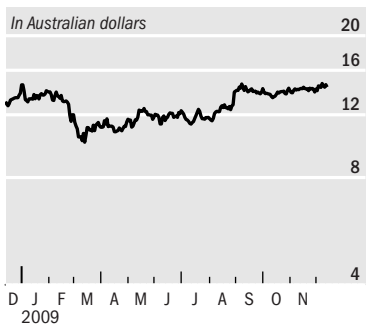
Credit Suisse lifted its rating on the auto-parts maker and raised the target price.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-34.20**
Dividend yield	**1.2**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Automobiles & Parts	**1.3%**	0.6%	66.5%
JTEKT	**6.7%**	11.6%	81.7%

Sonic Hlthcare
Australia A$14.35
▼ **1.6% or A$0.23**

Health care company faltered, though the stock was up for a second week on Friday.



Price-to-earnings ratio	**31**
Earnings per share, past four quarters	**0.47**
Dividend yield	**2.4**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Health Care	**-0.1%**	0.3%	14.7%
Sonic Hlthcare	**-1.6%**	0.2%	9.8%

GPT Group
Australia A$0.56
▼ **1.8% or A$0.01**

The property trust slipped and is off 14% in the last month.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-1.08**
Dividend yield	**1.8**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Real Estate	**0.7%**	-0.8%	48.3%
GPT Group	**-1.8%**	-4.3%	-28.6%

Swire Pacific A
Hong Kong HK$93.25
▼ **1.8% or HK$1.75**

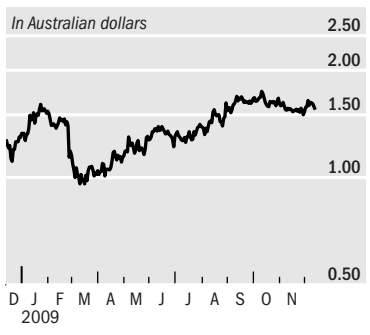
Stock fell after a report said it picked three banks to handle a proposed property unit spinoff.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-2.14**
Dividend yield	**2.2**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**1.3%**	1.1%	50.3%
Swire Pacific A	**-1.8%**	-0.3%	72.5%

Goodman Fielder
Australia A$1.55
▼ **1.9% or A$0.03**

Food company plans to sell its edible fats and oils unit to Cargill for $220 million.



Price-to-earnings ratio	**12**
Earnings per share, past four quarters	**0.13**
Dividend yield	**3.9**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Food & Beverage	**-0.1%**	-0.1%	38.0%
Goodman Fielder	**-1.9%**	-2.8%	21.1%

Sanyo Elec
Japan ¥172
▼ **2.3% or ¥4**

Profit taking weighed on the stock after a 17% surge in the past two sessions.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-13.60**
Dividend yield	**none**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Personal & Hshld Gds	**0.3%**	1.4%	25.6%
Sanyo Elec	**-2.3%**	9.6%	15.4%

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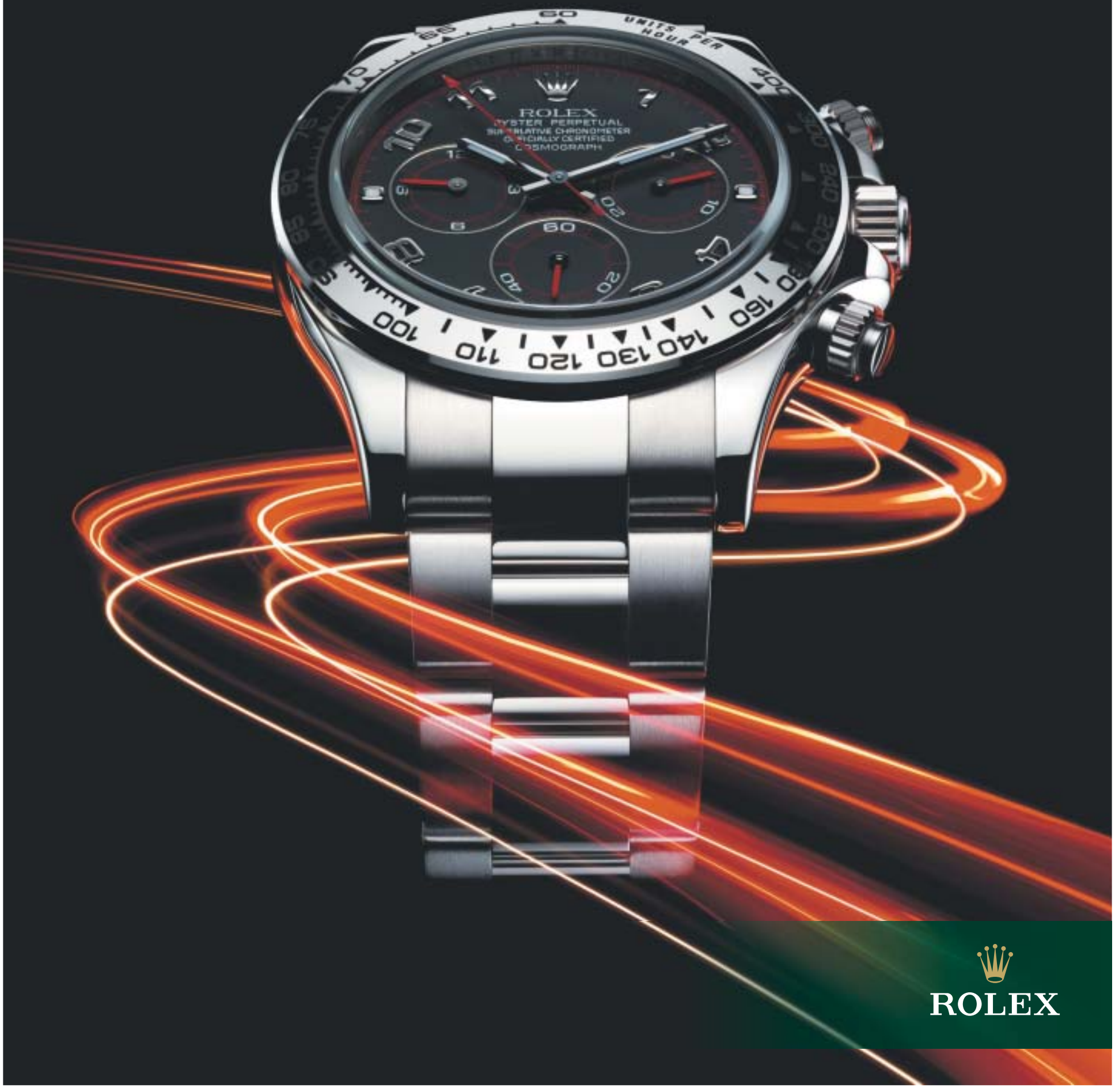
THE COSMOGRAPH DAYTONA



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